

BEYOND THE CRISIS:

A STRATEGIC AGENDA
FOR THE NEXT PRESIDENT

VICTOR ANDRES 'DINDO' MANHIT
EDITOR



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While the health challenge exposes deficiencies in the health care system of the country, it also highlights the need for a whole-of-society approach to enjoin every sector to participate and forge an efficient, evidence-based, and people-centered health program. In another social dimension, the widening of existing social inequalities is the main pandemic consequence of our healthcare and social protection systems' fragility.”

-The Need for a Strategic Agenda Beyond This Crisis

PREFACE

Politiká — The Affairs of the State for the New Government

In the time of the Greek city-states, the work of government revolved around the “affairs of the city” or small territorial jurisdictions. With the emergence of the nation-state and the ever-expanding dynamics of international relations, the concept of politiká, which appropriately evolved as managing the “affairs of the state,” now underpins a broader, holistic, and more nuanced understanding of politics and governance vis-à-vis the narrow, particularistic, and common interpretations.

The last three years of the Duterte administration witnessed the persistence of extant social maladies and issues and the emergence of new ones. In 2019, the strongman populist politics of President Duterte and his administration started to unravel. This is perceived to have exacerbated, in varying degrees, the country’s social problems.

The administration, especially in the last two years or since the pandemic struck in March 2020, particularly displayed its undemocratic and state-centric character. This character is evidenced by illiberal governance tendencies and the overbearing nature of the presidency, a polarized society, an overarching emphasis on social control in pandemic management, widespread disinformation and misinformation, growing evidence of grand corruption amid the pandemic, the erosion of democratic institutions and practices, and the worsening situation in the West Philippine Sea.

At the ground level, the population is beset with hunger, poverty, and unemployment woes. These pandemic hardships, in the process, are being alleviated by the collaboration between government, private sector, and civil society. But much could have been further accomplished in terms of pandemic management and amelioration if the government’s attitude towards the private sector and civil society had been that of trust and not of animosity.

The 2022 National Election offer a unique opportunity of translating these societal concerns and challenges into promising reforms in the realms of social, economic, and political management and governance.

Hence, it is incumbent upon the leaders of the new government at the end of June 2022 to act on the multi-dimensional concerns that Philippine society is set to confront in the next six years and beyond. In this respect, the various challenges and opportunities presented and discussed in this section outline the broader and deeper confines of “politiká - affairs of the state” that the new government must attend to in collaboration with the different sectors of Philippine society.

Continuing Public Health Challenges of the Wuhan Virus Pandemic and its Economic Consequences

The pandemic exposed the vulnerabilities of the Philippine healthcare ecosystem and highlighted the intricacies of governance. It revealed and enlarged existing gaps, which are more challenging to address because of the systemic and perennial problems in the healthcare system. Among these are the stagnant and inadequate healthcare facilities, lack of allied health workers, uncoordinated implementation of health programs due to the devolved government set-up, and the frequent emergence of allegations of corruption at all levels. All these resulted in the public’s inadequate access to healthcare services.

Likewise, the extended COVID-19 response measures also presented opportunities to improve the healthcare system. These measures are aligned with the basic principles of universal healthcare and the achievement of sustainable development goals. The pandemic further revealed some important lessons that can transform the current health space into a more efficient, reliable and resilient care system. The situation represents an opportunity to fix the system to make it more inclusive and responsive to the needs of every citizen.

In order to realize the said goals, there is a need to craft a roadmap that will catalyze a robust healthcare policy agenda to effectively mitigate the threats of the pandemic, shape the post-COVID-19 health recovery, and lay comprehensive foundations for a more resilient landscape toward an effective and sustainable new normal. All of these will require a coordinated and cohesive response from different stakeholders.

The inclusive and representative participation of all stakeholders committed to improve the public health services, with transparent and accountable management of resources, is the recommended solution to the current public health challenges. Both government and non-government actors must work together to overcome this ongoing crisis. This can be primarily achieved through a whole-of-society approach, wherein different roles and levels of participation are considered valuable. Synergy from different actors and sectors toward a people-centered health agenda is also inherently important to create a common health agenda that is more inclusive, equitable, and sustainable for all Filipinos.

The health agenda of the next administration should include solutions and strategies to address the systemic and perennial problems embedded in the health sector, as well as to prepare the country to proactively respond to future health emergencies. The new administration should consider striking the balance between reviving the pandemic-stricken economy and upgrading the country's health care system. A renewed healthcare agenda that is efficient, evidence-based, and most importantly, people-centered, is the way forward to a better Philippines.

The study of Barcelon, Berza & Jara (2022) dovetails the said agenda. In their paper "Beyond Health Measures: Towards a Genuine People's Health Agenda," the authors proffered a view where the "governance, organization, and structure of the country's public health system shall be reorganized into an integrated public health care system from the barangay, municipal, city, provincial, and regional up to the national level including specialty hospitals, diagnostic facilities and health programs." This national health care system, should be characterized by "equity in health resources at all levels and staffed with a strong health workforce."

In general, the health agenda should have an equivalent aspect in the next governance agenda. Magno (2022) articulated this view by citing Bloomberg's COVID-19 Resilience Ranking for September 2021, where the Philippines ranked last in the list of 53 economies covered.

On the aspect of fiscal support, Suzara (2022), in her paper "Rethinking Public Spending Priorities Towards an Inclusive Recovery," centered on misplaced budget priorities in dealing with the COVID-19 situation. Citing that "in the presence of a health crisis, the DPWH continues to emerge as the top recipient department while the DOH along with other critical frontline agencies trail behind (the) DILG and DND," there is inadequate funding for solving the public health crisis and that "budget priorities must be rethought and recast toward boosting our

health care systems and promoting inclusive economic recovery.”

As a natural component of human capital, Paqueo (2022) raised the importance of healthy children and families in earning enough income to meet consumption standards in society. “Technically, we should include investment in health as part of the definition of human capital,” the author said. In this respect, Mendoza (2022) opined that in the three areas of possible reform engagement, “inclusive healthcare system” is one of the critical components “to promote social cohesion and resilience to crises and disasters,” alongside social protection systems and education.

Also in the pandemic context, Guinigundo (2022) explained how investments could fill the health system gap and stated that “massive investments are currently urgently required to address the deficiencies in the health care sector that unfolded during the pandemic.” By pointing out the pressing need to strengthen the resilience of health systems, he described the health ecosystem to include the whole health sector together with “the relevant industries affecting health outcomes, such as health care, schools, safe buildings, safe transportation, and digital infrastructure.”

Caballero-Anthony (2022), on the other hand, discussed pandemics in the context of non-traditional threats to human, national, and global security (NTS). According to her, “an overlooked or perhaps underestimated NTS threat to national and human security is infectious diseases.” In the purview of traditional security, de Castro (2022) asserted that Public Health Security should be incorporated in the National Security Strategy.

The Challenge of Inequality as the Pandemic Compounds Generational Disparities in Income, Jobs, and Opportunities

The future of a country is almost always under threat due to political, economic, social, and cultural divides, where the most pressing concerns usually relate to income, jobs, and opportunities. Prior to the COVID-19 pandemic, social inequalities revolved mostly around the aspects of livelihood and economics.

Crises, however, can exacerbate and magnify such inequalities. In the case of the COVID-19 pandemic, the most vulnerable sectors of society bore the brunt of government-imposed measures that were intended to ease the overall impacts

of said crises. Ultimately, the people who were supposed to be the recipients of government actions became the collateral damage of the government's knee-jerk measures.

In fact, such pandemic-induced socioeconomic challenges persist. The Social Weather Stations' (SWS) Fourth Quarter 2021 Social Weather Survey in December found that 11.8% of Filipino families experienced involuntary hunger, or hunger due to lack of food to eat at least once in the past three months. Of this figure, 9.2% experienced Moderate Hunger while 2.6% experienced Severe Hunger. The SWS survey also revealed that adult joblessness eased to 24.7%, while the Philippine Statistics Authority (PSA) estimated last November that joblessness was at 22.1%. Both the degree of hunger and joblessness have yet to recover from pre-pandemic levels.

Unfortunately, aside from these hardships, there were glaring inequalities in the enforcement of quarantine and health protocol violations. The powerless and the poor have been subjected to harsh punishments, while the powerful and those with political ties were merely asked to explain.

The social amelioration packages provided by the government, though huge when viewed as a lump sum number, are actually small when recognized for their impact on individual families that suffered the consequences of months-long lockdowns. It was the entry of the private sector that became the game-changer in this period of emergency when it quickly mobilized resources and interventions to help address the needs of the vulnerable members of society. Because of the laudable response initiated by the private sector, the government was able to buy time to put together the necessary legislative, financial and logistical measures that led to overcoming the impact of the crises.

As such, the inequality that persists in the different sectors and groups can be addressed through an inclusive and multi-stakeholder strategy. Specifically, public-private partnerships are crucial as there is no single player that possesses all the necessary resources, expertise, and networks. As the government provides a conducive environment for businesses to thrive, then the latter can provide jobs, livelihood, income, and a comfortable life for Filipinos.

For this matter, Mendoza (2022) in his paper "Reducing Inequality in the Philippines: Rationale and Reform Options," considers that "crises can turn into 'inequality machines' that create knock-on effects in the political system by weakening social cohesion and creating deeper divides that increase the chances

for political instability.” To underline the mutually reinforcing relationship between inequality and the health crisis, the author said that “inequality has invariably weakened the country’s pandemic resilience while the protracted pandemic risk and economic slowdown also threatens to exacerbate inequality even further.”

As Mendoza critically raised how weak social safety nets exacerbated inequality, Paqueo (2022) also talked about the need to strengthen the country’s safety nets and unemployment insurance system in the context of facilitating the shift to strategic thinking of the labor sector. Human capital development and labor productivity are factors that promote inequality improvements.

Guinigundo (2022) highlighted economic scarring as he pointed out that “unemployment and inequality following the pandemic could threaten the economy’s long-term prospects.” Widening inequality is one of pre-growth issues that the pandemic has accentuated. According to him, the economic cost of the pandemic, is indeed significant with the total cost of the pandemic for 2020 amounting to PhP 4.3 trillion.

The accounts of Paqueo and Guinigundo on investment and its positive effect on labor, productivity, and human capital show that investments in both general and specific terms provide a favorable environment in lessening inequality.

Digital Divide or the Lack of Access to Digital Services: Accelerated Technological Change and Adoption is Key to Economic Recovery

From remote work to the expansion of e-commerce, the pandemic has catalyzed an era of rapid change with digital tools as the vanguard. Policy makers have the opportunity to embrace a new way of working and thinking that capitalizes on the many advantages that digitization brings. Beyond improving the country’s digital infrastructure, the government must craft a multi-pronged digital agenda that encompasses adoption, provision of upskilling, education and training, and the encouragement of digital trade.

The digital transformation of the Philippines has been accelerated by necessity as government units, businesses and consumers alike had to navigate through the pandemic uncertainties. A report by Google, Temasek and Bain & Company found that the Philippines—with 12 million new digital consumers since the

start of the pandemic and a projected USD 40 billion valuation by 2025—is the fastest-growing internet economy in Southeast Asia. In fact, many business owners believe they would not have survived the pandemic if not for digital platforms. The government has also met, or even surpassed, several ICT-policy targets – leading to improvements in internet speed, increased wi-fi coverage and more harmonized governance. According to a report by AlphaBeta, digital transformation can create up to PhP 5 trillion (USD 101.3 billion) in annual economic value by 2030, if leveraged properly. The next administration will step into an economy that has been ravaged by lockdowns yet brimming with the potential of a burgeoning digital economy.

While the digital transformation added resilience, flexibility, and adaptability to the economy, it is not without challenges. Among them is the “digital divide”, or the unequal access and use of digital tools and services across demographic groups. Despite increases in internet speed, only 63% of the country’s adult population use the internet according to a Pulse Asia survey. Moreover, internet use is not distributed evenly, with the National Capital Region (NCR) recording 84%, the rest of Luzon at 65%, the Visayas with 62%, and Mindanao with 47%. Initiatives such as the Free Wi-fi for all program and the National Broadband Plan (NBP) should be fine-tuned to enhance internet accessibility so that economic, social and educational opportunities can be bolstered for all Filipinos.

Digital skill gaps and low digital literacy are also key barriers to effective digital transformation. According to the Digital Skills Gap Index (DSGI) 2021, the Philippines ranks 12th out of the 19 East Asia and Pacific economies based on multiple factors that underpin digital skill levels, citing weak and under-resourced education systems and worker resistance to reskilling and upskilling as significant challenges. While creating a robust digital infrastructure is paramount, the next administration must be equally focused on fostering an environment where citizens all over the country can access, adopt and learn how to use the tools enabled by a digital infrastructure. The government can focus on strengthening the education system to cultivate graduates that are digitally minded while strengthening skills training programs like Tech4Ed and introducing life-long learning programs to upskill the workforce.

In his study “Digitalization Agenda 2022: Towards a Resilient Philippines Through Digital Transformation and Inclusion,” Ona (2022) argued that “as an enabler of economic growth, digitalization can also encourage greater inclusion,

drive innovation, and foster good government.” Ultimately and as the author firmly asserts, it is imperative for the Philippines to adopt a digitalization agenda because of the following conditions: (1) The new normal is digital; (2) There is a need to eliminate boundaries; (3) The protection of the country’s digital infrastructure is a must; and (4) There is the need to address gaps in the current policy regime.

For Guinigundo (2022), the appropriate policy response for the country is to strengthen the digital infrastructure. He underlined that “During the pandemic, the digital shift proved very useful in mitigating the adverse impact of physical restrictions to economic and business activities, including the provision of services. This broad tweaking of business processes could amount to a significant cushion to a prolonged health crisis.”

He further stated that a centralized digital data system could have enabled the authorities tasked to manage the pandemic to design, develop, and operationalize granular health decisions.

In his study, Paqueo (2022) articulated: “on workers’ need for more frequent upgrading of current skills and acquisition of new ones over their life cycle, the government could facilitate easier access to lifelong learning programs with the help of digital and Artificial Intelligence (AI) technologies.” Hence, digitalization is vital to the constant re-skilling, upskilling and updating of knowledge to raise the productivity and competencies of workers through education and training.

Digitalization, in so many respects, performs a facilitatory role in modernizing and improving agricultural production, the delivery of public services, e.g., health, education, and essential commodities, devising climate change mechanisms, ensuring transparency and accountability in government dealings, modernizing traditional defense and security equipment and facilities, diversifying supply chains and investments, among others.

The Long Emergency: Resurrecting the Consumer Economy and the Need for Investment-Driven Growth and Stakeholder Capitalism

The COVID-19 pandemic continues to cause widespread illness, economic turmoil, and uncertainty in our day-to-day lives. However, recent developments have shown the pandemic is not going to end anytime soon, with the unpredictable

nature of outbreaks and the emergence of new COVID-19 variants. Amid the ongoing health crisis, the Philippines experienced record lows in its GDP growth and alarmingly high unemployment rates. With the upcoming national elections, a new administration will soon be elected, and the next set of officials would have to undertake the rebuilding of the Philippine economy. This entails addressing the country's prevailing issues such as poverty, hunger, joblessness, and inflation, which worsened due to the pandemic.

Interestingly, according to the Philippine Statistics Authority (PSA), the Philippines' gross domestic product (GDP) posted a full-year growth of 5.6% in 2021, slightly exceeding the government's 5.0-5.5% goal for the year. Meanwhile, in the fourth quarter of 2021, the economy expanded by 7.7%. The number of unemployed Filipinos in the country had also decreased from 3.50 million in October to 3.16 million in November 2021, as reported by the PSA. Improvements in the country's economic indicators are attributable to the government's decision of easing mobility restrictions in the latter part of 2021, allowing more sectors of the economy to reopen and ignite consumer spending. Despite the current trajectory of the country's GDP growth, sustaining these improvements remains uncertain as the existence of new COVID-19 variants, particularly the highly transmissible Omicron variant, which hampered the resumption of economic activities.

Based on the Bangko Sentral ng Pilipinas (BSP) Consumer Expectations Survey, consumer sentiment in the fourth quarter of 2021 was more pessimistic as the overall Confidence Index (CI) declined to -24% from -19.3% in previous quarter due to the ongoing pandemic and the country's dire economic situation. Indeed, sustaining the economic growth of the Philippines requires effective solutions that would ensure resiliency in the long run. The country's economic growth is traditionally consumption-led. The pandemic, however, has significantly affected consumption. Hence, it is an opportune time for the country to shift towards an investment-driven economy and forge strategic global partnerships that can help address the socio-economic challenges brought upon by the long emergency.

A holistic approach is necessary for a sustainable and inclusive economic recovery, which the government cannot tackle on its own but through multi-sectoral collaboration. The private sector has established itself as a valuable partner of the government, as a driving force in the creation of investments and jobs. These are vital in addressing economic hardships in the country. By

adapting the concept of “stakeholder capitalism,” the shared prosperity that the private sector can contribute will be more crucial than ever in accelerating the country’s economic revival. It would also bring forth its sustainable and inclusive growth that would uplift the lives of the Filipino people.

In his study “Philippines: Pursuing an Investment-Led, More Sustainable Economic Growth,” Guinigundo (2022) highlighted the investment imperative on the following accounts. While public as well as private investments should be encouraged by public policy, “investments offer the promise of more resilience during periods of economic stress and crisis.” Evidence in past crises have revealed that FDIs could potentially provide stability and resilience. Additionally, “massive investments can alleviate economic scarring.” Altogether, investments, good institutions, better infrastructure, going digital, going green sustainable finance, and legislative measures attracting investments comprise an investment agenda.

In the same vein, Paqueo (2022) held that the scarring effects of unemployment is likewise a function of investment uncertainty. Investments in human capital, in health, in basic and higher education, and training directly translate into labor productivity. Thus, “a good investment environment is beneficial not only to capitalists but also to labor.”

For David (2022), private sector investments in the agriculture sector’s climate resiliency, infrastructures and logistical needs must be enhanced to advance production and growth amid the ever-changing climate conditions. Disruptive effects of climate change on local agricultural productivity affect the sector’s value chain.

Globalization and the Post-Pandemic Future of Trade, Investments and Supply Chain Issues

As the Philippine economy gradually recovers from the most damaging periods of the COVID-19 pandemic, policymakers have the opportunity to envision a new strategic agenda for engaging with the global economy. The new administration taking the reins in June 2022 will inherit a highly scarred, bleeding economy while contending with unprecedented public debt levels. To create robust economic growth, invite foreign investment, and develop strong supply chains, the next administration must forge a foreign policy that is purposeful and goal oriented.

It is simply not enough to say that the government will seek to encourage foreign investment and international trade. The new government must demonstrate that any trade and investment it facilitates have been planned with tangible targets in mind such as job creation, export markets for domestic producers, cheaper basic goods for citizens, etc.

If the Philippine Senate ratifies the terms of the Regional Comprehensive Economic Partnership (RCEP), as it appears highly probable, the new administration will have the tools and means to advance Philippine economic interests. RCEP represents the world's largest free trade area – spanning all of ASEAN plus economic heavyweights such as Japan, South Korea, China, Australia and New Zealand. Approximately 30% of the world's population is covered by RCEP signatories and about 30% of global GDP. Formally joining RCEP offers the Philippines the opportunity to significantly grow its export economy – providing domestic manufacturers expansive access to foreign markets, and therefore contributing to the inflow of foreign reserves. Export business groups in the Philippines have argued that their businesses would benefit greatly from new export destinations as well as reduced non-tariff barriers. In this respect, the next administration should work closely with export-oriented industries to form a roadmap for long-term success.

However, integrating the Philippine economy closer to the global economy will undoubtedly pose difficult questions for the new administration. Specifically, it will be forced to craft ways in which the entry of cheaper imports into the country could be balanced so as not to affect domestic producers and industries. Policymakers will likely be called upon by citizens and domestic producers to show that they are taking steps to strengthen key industries in the Philippines and prevent them from being undercut by cheap foreign imports.

Lastly, the new administration must pay close attention to improving the country's manufacturing sector to produce more exports than imports. The country has been running on a trade deficit over the past several years, with a significant chunk of the imports coming from China. As such, this COVID-19 pandemic can be an opportunity for the Philippines to attract investors to enhance its competitive advantage and further strengthen its role in the global supply chain. Indeed, the new administration should think strategically in order to diversify the country's supply chains and reduce overreliance on any one country or source.

Guinigundo (2022) used the case of Singapore to assert how trade and investment serve as a driver of good governance. On the side of the economy, the potential impact of investments on trade in goods was expressed as follows: “Over time, it is expected that as the investment-led economic activities result in the expansion of the economy’s potential capacity and support the needed infrastructure development, we can expect subsequent rise in goods exports, eventually mitigating the trade gap, and more bullish economic and business activities.”

With regard to the pandemic’s negative impact on local and international trade, Paqueo (2022) suggested the existence of a mutually inclusive relationship between investment, trade, and health challenges. David (2022) illustrated how, in agricultural production, the pandemic had “magnified barriers in ensuring sufficiency of agriculture commodity supplies, fair trade practices, unhampered movement of goods across cities, and accessibility of goods at an affordable price.” On this note, David cautioned how “the interconnectivity of commodities through global trade leads to more competition. With an unprepared local agriculture sector, this may very well backfire on us once again.”

Nonetheless, in terms of trade and food production, David ascertains that “there is a definite need to revive the agriculture sector. This revival should not be viewed as strengthening foreign trade per se, but by directing efforts to better national food security and uplifting the rural economy.”

Global Warming (Weirding): Need for Climate Action, Environmental Stewardship and a Green Economic Recovery Program

Global warming and climate change are long-term threats that will negatively affect every sector of the global economy and put the most vulnerable in harm’s way. The Philippines is no exception. Due to the country’s geographical location, the country is severely affected by climate-induced risks that bring about a multifaceted challenge of balancing economic growth with urgent climate and environmental action.

According to a Department of Finance (DOF) report during the fourth quarter of 2021, about 98.2% or PhP 506.1 billion of the Philippines’ total economic loss between the period of 2010 to 2020 can be attributed to climate-related events.

With today's increasingly unpredictable occurrence of natural calamities, we can expect this number to grow even more. In fact, according to the World Bank (WB), about PhP 30.76 billion worth of infrastructure and agricultural commodity was damaged when the country was hit by three consecutive typhoons in the last quarter of 2020. When the Philippines was hit by Typhoon Odette during the last quarter of 2021, the National Disaster Risk Reduction and Management Council (NDRRMC) estimated infrastructure and agricultural damages at about PhP 29 billion.

Despite our first-hand experiences of the ever-changing climate and the increasing severity of nature-based calamities, a high percentage of Filipinos remain unaware of these issues and the possible consequences that disaster unpreparedness brings. In a Stratbase ADR Institute-commissioned survey conducted by the Social Weather Station in October 2021, about 34% of the respondents do not know, cannot understand, have no answer, or are not aware of the issues concerning climate change. Sadly, an even bigger percentage, about 40% of the respondents, gave an invalid answer which only emphasizes their lack of knowledge about climate change.

Fortunately, in the 2021 Conference of Parties (COP26), developed countries committed to the mobilization of USD 100 billion worth of climate finance every year to support climate adaptation initiatives in the developing world. The Philippines must tap into this resource pool to make the country more climate resilient.

Further, the convergence of economic activities and their impact on the environment became clear. The Philippine environmental situation thus calls for an ambitious green economic recovery program. These prevailing and emerging complex environmental issues need to be addressed. Sustainability and environmental concerns need to be among the top priorities of our government and stakeholders. Bureaucratic barriers that hamper collaboration should be resolved. These are risks not limited to science. They are a shared responsibility that needs guidance and direction from public policies, civil society frameworks, and private sector support and investment.

In the context of the need for climate action, Monsod et al (2022) in their paper "Accelerating Resilience and Climate Change Adaptation: Strengthening the Philippines' Contribution to Limit Global Warming and Cope with its Impacts" primarily argued for the need for a Nationally Determined Contribution

(NDC) to the Paris Agreement “that is based on first principles, with programs and measures anchored on adaptation and driven by their on impact sustainable development rather than by GHG emissions reductions per se.” The path to strengthen Philippine contribution to the Paris Agreement features climate change adaptation and resilience as its anchor and sustainable development as its context. On this note, David (2022) asserted specifically for agriculture that “a climate-resilient sector should be one of the goalposts of any climate adaptation measure.”

As climate resilience is vital to agriculture, environmental sensitivity is likewise related to investments. Guinigundo’s concept of “Going Green Sustainable Finance” (2022) states that “a green and inclusive recovery will significantly enhance the resilience of our economies and societies in the face of both the severe recession and accelerating environmental challenges.” He thereby suggests the “introduction of environmental, social, and governance (ESG) considerations in investment decisions.”

In the perspective of Caballero-Anthony (2022), climate change is part of what is currently termed as nontraditional security (NTS) challenges. According to her, “NTS challenges are non-military in nature but can severely threaten the well-being and security of states and societies. They include climate change, pandemics, environmental degradation, and resource scarcity threatening food and energy security.”

Asymmetric Security Challenge: How the Pandemic Crisis is shaping the Regional and World Order

Over the years, the regional and global security architecture has become more complex. In the case of the Indo-Pacific region, its inherent multipolarity and the emergence of traditional, non-traditional, and evolving security threats have led to various challenges and geopolitical shifts. For instance, the ongoing COVID-19 pandemic has exposed the vulnerability of states in health emergencies and challenged their willingness and capacity to cooperate. As states continue to navigate the current situation, other important security developments such as the strategic competition between the United States and China, the renewed tensions in the contested South China Sea, gray zone

operations, climate change, and cybersecurity have also continued to shape the Indo-Pacific.

Amidst these security developments, the international community has gradually realized the strategic and economic importance of the Indo-Pacific region. States have started to realign their foreign and security policies toward the region, exemplified by the various Indo-Pacific strategies proposed by various governments and international organizations. At the same time, states have become more responsive to the changing regional security architecture considering its possible impact on their national security and economic development.

In the context of the Philippines, maritime security in the West Philippine Sea is a persistent and primary concern. China's aggressive behavior and expansionist agenda, as demonstrated in last year's Ayungin Shoal incident, have provided impetus for a strategic reassessment of the country's foreign and security policy. The upcoming national elections in May 2022 signals a possible shift in the country's stance and policy direction. As security developments continue to shape the regional security architecture, the new set of Filipino leaders must prioritize the development of a stronger and more responsive foreign and security policy for the Philippines. Aside from asserting the country's national sovereignty and territorial integrity, they must also revisit the country's existing security framework and prioritize the country's strategic interests especially in addressing persistent challenges in the disputed waters. UNCLOS and the 2016 arbitral victory form a solid basis for this reassessment.

It is also critical for the Philippines to strengthen existing partnerships and forge new alliances. International support for the Philippines in the West Philippine Sea further solidifies its legal claims in the disputed area. In this regard, the next President of the Philippines should prioritize multilateral and inclusive cooperation with like-minded states such as the US, Japan, Australia, and India to ensure the maintenance of a rules-based international order and the realization of a free and open Indo-Pacific region. Beyond 2022, the Philippines must successfully contribute to building a more peaceful, prosperous, and stable region.

Philippine foreign and security policy must deal with the evolving security developments in the West Philippine Sea and in the larger confines of regional and global security structures.

In the perspective of traditional defense and security, de Castro (2022) in his

paper “A National Security Strategy (NSS) for the 17th Philippine President: The Case for A Limited Balancing Strategy” reviewed President Duterte’s limited hard balancing toward China, which originated from an appeasement policy stance. In dealing with the asymmetric security challenge, the author advanced what can be called a four-pronged security agenda, namely, (1) the formulation of a new National Security Strategy (NSS) based on the 2016 Arbitral Ruling on the South China Sea Dispute and the incorporation of Public Health Security in the NSS; (2) military capability building and modernization; (3) organizational and legislative reforms; and (4) exploring and strengthening of partnerships and alliances.

In the same vein of geopolitical relations and international politics, the arguments of Heydarian (2022), in his study “The Great Cauldron: China, US, and the New Cold War in the Indo-Pacific,” gravitated toward the reality that “China is not only the world’s largest exporting nation, soon to become the world’s largest economy, and increasingly a top source of foreign investments across the developing world, but it is also rapidly modernizing the world’s largest armed forces.” He said that on both the economic and military fronts, the Asian powerhouse is gradually creating a new order with Chinese communist characteristics. What is imperative for Philippine government is the full implementation of the Enhanced Defense Cooperation Agreement (EDCA). He further stated that “addressing China’s strategic opportunism necessitates a rules-based stand from the international community, global cooperation, and regional collaboration.”

Notwithstanding the concrete and imminent threats that geopolitics still holds today, Caballero-Anthony (2022), in her paper “Non-Traditional Security Threats to Peace and Security in the Indo-Pacific,” broadened the concept of defense and security in a non-traditional sense. Non-traditional security (NTS) issues, according to her, share the following common characteristics: “(1) Threats do not stem from competition between states or shifts in the balance of power’ (2) Threats are often caused by human-induced disturbances to fragile balance of nature with dire consequences to both states and societies; (3) Threats are not only man-made but also triggered by a rapidly changing global climate and by advances in technology (e.g., cybersecurity); (4) The kinds of threats are transnational in nature, in terms of their origins and effects; and (5) The impacts/consequences are difficult to reverse or repair (e.g., desertification, drought, loss of habitat).”

COVID 19 Corruption: Key Risk to Philippine Democracy and the 2022 National Elections

The COVID-19 pandemic exposed various gaps in Philippine governance, notably the government's capacity to prevent corruption. The year 2021 witnessed the eruption of the Pharmally scandal where billions of pesos of public funds earmarked for the pandemic emergency response were instead funneled into questionable corporations selling substandard, overpriced goods. Such corporations, particularly the Pharmally Pharmaceutical Corporation, allegedly benefitted from its links to President Rodrigo Duterte. One is forced to confront the way that favoritism and the *padrino* system may have played a part in Pharmally bagging of over PhP 8 billion worth of contracts, despite possessing a starting capital of only PhP 625,000. To make matters worse, Pharmally did not manufacture goods such as face masks and face shields themselves, as these items were often procured from small companies who have failed to file their tax returns.

The pandemic paves the way for ill-intentioned groups and individuals to make a profit at the expense of the people. Scholars have argued that a public emergency such as that of COVID-19 creates more opportunities for corruption to take place in government deals. The urgency of the situation can be used by officials to override regular and established checks, balances, and procedures.

The Philippines is no stranger to corruption. Countless politicians have run for office with platforms aimed at combating this perennial issue. Recent Filipino history is likewise abundant with instances of public servants plundering taxpayers' money. Global statistics confirm the severity of the corruption problem in the Philippines.

Transparency International, in its Corruption Perceptions Index (CPI), gave the Philippines a score of 33 out of 100 for the year 2021, a point lower than its 2020 score of 34. A low score on the CPI indicates a higher incidence of corruption. The Philippines moved even closer to being described as "highly corrupt."

As the country approaches the May 2022 national elections; corruption remains a key concern of the Filipino people. In a December survey conducted by Pulse Asia, fighting graft and corruption was listed as the third most pressing issue that Filipinos want national candidates running for the elections to address. Moreover, in the same survey, "not corrupt" and "honest and trustworthy" were

listed as the second and third top characteristics that candidates for a national position should have. The Filipino people, the government, and the private sector must collaborate and continue to combat corruption at all costs.

Corruption was treated as one of the major components in Magno's study "Governance Agenda for Post-COVID 19 Recovery" (2022). For him, a comprehensive approach is needed to deal with corruption as it "should not be simplified as the work of individuals who went astray. The focus should be on corrupt systems. Corruption prevention strategies should look for ways to reduce monopoly power, limit and clarify discretion, and promote transparency and accountability in governance."

As corruption is more despicable amid pandemic times, "the drop in the country's performance in controlling corruption (in the World Governance Indicators) over the past five years served as the prelude for the outbreak of corruption in pandemic times." Magno further argued that "Democratic backsliding has enhanced executive discretion and diminished the system of checks and balances in the country." One of his conclusions and recommendations pertain to the minimization of information asymmetry in order to reduce corruption vulnerability. In this vein, Mendoza (2022) also cited freedom of information as part of the key political and governance reforms needed. This suggestion, however, is challenging, given widespread and worsening disinformation and misinformation.

Suzara (2022) emphasized the allegations of corruption in the pandemic response of government where "the Commission on Audit flagged the DOH over the PhP 67.3 billion fund due to mismanagement and underutilization citing the following observations" that include the existence of unobligated funds, improper documentation, procedural lapses in procurement, the lack of supporting documents and legal basis on the disbursement of certain funds, overpricing, and the like.

Pertinent to the increasing burden of health, Barcelon, Berza & Jara (2022) cited the case of PhilHealth officials being embroiled in corruption issues through the so-called "Interim Reimbursement Mechanism" scheme. The authors in general cast doubt on the existence of a national health insurance, which according to them is prone to corruption.

From an investment perspective, Guinigundo (2022) aptly invoked the need for good institutions. His study states that: "In the Philippines, two specific

governance issues require special attention: 1) poverty and inequality; and 2) corruption and bureaucracy.”

The Need for a Strategic Agenda Beyond This Crisis

While the health challenge exposes deficiencies in the health care system of the country, it also highlights the need for a whole-of-society approach to enjoin every sector to participate and forge an efficient, evidence-based, and people-centered health program. In another social dimension, the widening of existing social inequalities is the main pandemic consequence of our healthcare and social protection systems’ fragility.

The problem of inequality, however, could have been largely addressed if the government’s response measures did not overwhelmingly focus on social control and if the private sector and civil society were tapped accordingly.

The same holds true with revitalizing the consumer economy, strengthening trade, attracting investments, and diversifying our supply chains. In dealing with these economic matters, the next administration should never be heavy-handed and instead perform the facilitatory role as an enabler. On top of this is the general order of the day of partnering with the private sector and consulting with industry stakeholders and consumers.

Further, the digital challenge that comprises quality infrastructure and readiness, accessibility and availability, and upskilling, education, and training needs primarily a government-private sector synergy with the consumers, entrepreneurs, civil society, and the workforce also actively partaking in digitalization.

Similar with the health and inequality challenges, climate action to mitigate the adverse and disastrous impacts of global warming necessitates an all-sectoral cooperation. More specifically, however, disaster preparedness and infrastructure resilience, a green and sustainable recovery program, environmental preservation, and overcoming bureaucratic barriers that hamper collaboration are also critical concerns.

As to the maritime rights of our country that borders with the littoral states in the West Philippine Sea, the asymmetric security challenge beleaguering the archipelago can be addressed through multilateralism and the forging of new

alliances. Additionally, both traditional and non-traditional security risks should be continually assessed. As support from the international community in the promotion of our maritime rights in the disputed waters is simply crucial, the convergence of international community members in promoting a rules-based international order is an emergent development in the field of regional and global cooperation.

Finally, the persistent problem of graft and corruption in government, like the other challenges that impact upon all segments of the population, equally requires a multi-sectoral and multi-stakeholder collaboration in order to consistently demand transparency and accountability in the affairs of the state.

Victor Andres “Dindo” C. Manhit
President, Stratbase ADR Institute



**A RESPONSIVE AND STRATEGIC
FOREIGN POLICY OUTLOOK**
IN AN INTERCONNECTED AND
MULTIPOLAR WORLD

VICTOR ANDRES "DINDO" C. MANHIT
PRESIDENT, STRATBASE ADR INSTITUTE

A RESPONSIVE AND STRATEGIC FOREIGN POLICY OUTLOOK IN AN INTERCONNECTED AND MULTIPOLAR WORLD

PROF. VICTOR ANDRES "DINDO" C. MANHIT

Changes in the international political economy, geopolitical shifts, rising inequality, and political instabilities continue to complicate global risks. As the international community attempts to fully recover from the impact of the COVID-19 pandemic, the increasing interconnectedness of states and the simultaneous existence of various traditional and non-traditional challenges have engineered a more multifaceted and unpredictable geopolitical backdrop, especially in the Indo-Pacific.

In the context of the Philippines, the results of the upcoming 2022 national elections will be instrumental in shaping the future of the country's foreign policy in the next six years and beyond. An enduring concern, the West Philippine Sea predicament, and the issues it represents, will capture the attention of future governments. As the country officially enters the campaign period, candidates for the highest positions in the government are expected to give more details on their proposed plans, particularly in terms of foreign policy and regional affairs.

In turn, Filipino voters should scrutinize the candidates' campaign platforms as these will be crucial for the country's regional standing and economy in the coming years. The Philippines is in dire need of a more definitive and clear foreign policy direction. Only through the power of voting can Filipinos push for leaders who can advance the country's national interests and contribute to peace and stability in the region.

Considering this, the paper aims to provide an assessment of the current direction of the country's foreign policy and offer policy recommendations to the incoming administration. This entails a thorough assessment of the Duterte administration's foreign policy agenda and its impact throughout its six-year term. It also delves into the current situation the Philippines is in — both in terms of national interests within its borders and its regional and global position. More importantly, it advances a more strategic foreign policy that banks on the protection of the country's national sovereignty and territorial integrity, an equal consideration to various factors affecting human security, and the continuing importance of defining alliances and strategic partnerships in navigating through the changing international order.

The first part of the paper focuses on the transition of the international system into an interconnected and multipolar world, along with its impact on the shifting balance of power and dynamics between states. The second part explores the opportunities and challenges brought by the interconnectedness of states as they face a new kind of globalization where values and interests shape competition, cooperation, and confrontation. The paper then focuses on how these international developments and shifts have shaped Philippine foreign policy under different administrations. In addition, it also examines the significance of economic diplomacy as seen in various regional and global initiatives. Lastly, the paper discusses the importance and continuing relevance of multilateralism and global governance in managing critical issues and offers key foreign policy recommendations for the next set of Filipino leaders.

The Deterioration of the Old World and the Shift to a Multipolar Order

During the Cold War years, states aligned their policies with the great powers, the United States and the Soviet Union, to address and manage the consequential challenges of bipolarity. The Cold War effectively divided states into a bipolar world, leading small states to bandwagon with a powerful state and balance against others for their strategic interests. When the Cold War ended, the United States (US) managed to expand its political influence and economic growth. It became the largest national economy based on gross domestic product and one

of the most prosperous in terms of average income. The prominence of the US in the international community allowed the effective promotion of a liberal, market-based economic order.¹

Over the years, however, the global political structure has gradually shifted into a multipolar world where the strategic competition is not limited to only two states. A multipolar world meant a highly globalized structure wherein states are economically, geopolitically, and strategically interconnected. The following economic factors primarily indicate the rise of multipolarity:

1. Share of G7 in global GDP;
2. China's rise;
3. Importance of whose monetary policy matters to the rest of the world;
4. Share of developing and transitional countries (DTCs) in world output; and
5. South-South trade²

Beyond this economic entangling is the growing importance of the East in global politics which ultimately challenges the influence of the Western major powers to smaller-to-middle powers' own national interests. Putting into equation the highly interdependent economies, the reality of varying state development levels and often conflicting political-security stances, states must align and consider multilateral and inclusive cooperation to prevent the escalation of extant conflicts and pursue their national interests.

The emergence of various traditional and non-traditional challenges also led to a more complex and unpredictable geopolitical milieu, especially in the Indo-Pacific. The region's growing strategic importance has caused major players, including the United States and the European Union (EU), to realign their foreign policies to develop mutually beneficial relationships. Global issues such as the COVID-19 pandemic, the US-China strategic competition, and climate change have also underscored the importance of multilateral cooperation in collectively managing risks and challenges. This has been highlighted in recent developments, including the fourth meeting of the Quadrilateral Security Dialogue (QUAD) foreign ministers in Australia and the Summit for Democracy hosted by the United States.

The Networked International Society

The increase in the number of democracies since 1950 coincided with three other significant global developments. The first is economic interdependence among states because of the increase in economic openness measured on international trade as a proportion of states' Gross Domestic Product (GDP).

The second development is the growth of membership in intergovernmental organizations (IGOs), including both global and regional institutions.³

The third is the fast-paced development of technology and innovation providing space for increased connectivity and interaction. With these developments, individual states have gradually come together to form an interconnected and networked international society.

While there are benefits to an interconnected world, it has also been associated with the complexity of global issues like the COVID-19 pandemic. This has further highlighted the need for global and regional problems to be resolved through collective action. In confronting these challenges, states have investigated the formation of transnational institutions to foster long-term cooperation. It has also highlighted the significance of promoting a rules-based international order to effectively manage the relations among states, big and small alike. Aside from this, it has allowed the cross-border exchange of goods, services, information as well as the migration of people. Furthermore, economic interdependence has fostered cooperation among states, opening new opportunities for both national and international growth and development.⁴

Opportunities and challenges brought by the new age of globalization require more initiatives on cooperation among states. This will have an impact on developing countries, including the Philippines. In this context, the results of the upcoming 2022 national elections will be instrumental in shaping the direction of the country's foreign policy. The next set of Filipino leaders is expected to face the domestic issues unresolved by the current and previous administrations. These include foreign indebtedness and the socioeconomic consequences of the ongoing global health crisis. Beyond these issues, the new government will also face formidable geopolitical challenges from the renewed tensions in the Indo-Pacific region, brought by China's long-term ambition to reshape the rules-based international order and destabilization or conflicts in other regions that may affect Philippine foreign policy.

An Independent and Values-Based Philippine Foreign Policy

To navigate this global order shaped by these new security challenges that have posed great uncertainties, past and present Philippine administrations have attempted to implement a foreign policy that would advance the country's national interests. Significantly, the Aquino administration, which spanned from 2010 to 2016, was in the midst of these geopolitical changes. Led by the late President Benigno Aquino III, the government prioritized territorial defense over domestic security by strengthening the country's relations with the United States and other strategic partners such as Japan to challenge China's expansive maritime claims in the South China Sea.⁵ This may be considered as one of the pivotal moments that signaled greater focus on the Asia-Pacific region.

Disturbances in the West Philippine Sea, such as the 2012 Scarborough Shoal or the Panatag Shoal stand-off, triggered a significant change in the country's foreign policy. Under Aquino's leadership, the Philippines signed the 2014 Enhanced Defense Cooperation Agreement (EDCA) as part of efforts to manage the country's external relations and effectively respond to external threats. In January 2013, his administration also brought the country's case against China to the Permanent Court of Arbitration (PCA) in The Hague. This eventually led to the country's arbitral victory in 2016, invalidating China's "nine-dash line" and historic rights over the South China Sea. The Tribunal also confirmed China's violation of international law seen through its illegal activities, such as the development of artificial islands in the Spratlys, which caused severe harm to the country's marine environment. Although China refused to acknowledge the ruling, the international community strongly supported the strategic decision.

Distancing himself from the direction taken by the previous administration, President Rodrigo Duterte changed the overall political and diplomatic stance of the country. On September 10, 2016, he announced his administration's pursuit of an "independent foreign policy" founded on three core principles.⁶

1. Separation of Philippine foreign policy from the United States;
2. Improvement of relations with China; and
3. Improvement of relations with non-traditional partners such as Russia, Japan, and India.

President Duterte launched diplomatic initiatives to build new alliances and bring the Philippines closer to non-traditional partners such as China and Russia despite the public concerns and issues in the West Philippine Sea. His administration focused on the economic concessions and perceived benefits from China's Belt and Road Initiative (BRI) and tried to negotiate with China for soft loans to fund various projects under his flagship infrastructure initiative, the "Build, Build, Build" (BBB) program. The Duterte administration also announced its separation from the United States, an unforeseen move that challenged the region's strategic balance. President Duterte further pushed the war narrative where small states cannot respond to major powers such as China and confronting them would only lead to war. President Duterte's expression of working with President Xi Jinping over various regional issues to ensure a partnership for greater peace, progress, and prosperity became an echo of the latter's motto, "win-win cooperation."

While the Duterte administration sustained this pivot-to-China policy and worked on forging closer ties between Manila and Beijing, there were still concerns over its promised investments and its gray zone operations and military expansion in the West Philippine Sea.

1. In 2020, more than 200 Chinese maritime militia vessels were spotted along the Julian Felipe Reef (Whitsun Reef) escalating once again the tensions in the West Philippine Sea. Although the Philippine government tried to de-escalate the situation, China refused to cooperate and call for the withdrawal of its vessels. The Chinese Embassy in Manila even released a statement urging Filipino government officials to avoid making "unprofessional remarks" over the incident after being reprimanded by the Secretary of National Defense Delfin Lorenzana.

2. On November 16, 2021, Chinese Coast Guard vessels used water cannons to block two Philippine supply vessels in the Ayungin Shoal. Foreign Affairs Secretary Teodoro Locsin Jr. strongly condemned the incident and filed another diplomatic protest. Chinese Foreign Ministry spokesperson Zhao Lijian justified their actions by saying that the Philippine vessels trespassed on Chinese territory and that the Chinese Coast Guards are only upholding their duties.

Ultimately, the foreign policy decisions of the Duterte administration did not put the country's position and ability at a vantage point to contribute to regional stability and positively affect its alliances and strategic partnerships.

In this regard, the new administration should re-evaluate its position towards China centering in the 2016 arbitral ruling and considering its previous hostile actions in the West Philippine Sea and the Indo-Pacific. It should also take into consideration the potential impact of the "Chinese Dream" or China's strategy that seeks to shape the international order to be more advantageous to its authoritarian system and surpass the global influence of the United States and its allies and security partners in the Indo-Pacific.⁷

By doing this, the Philippines can develop and implement policies to further protect its national sovereignty while recuperating from the consequences of President Duterte's so-called independent foreign policy. Given the remaining months of the current administration, the Philippine government should start prioritizing multilateral and inclusive cooperation with other like-minded states to uphold the rule of law and prevent any unilateral action that can undermine peace and stability in the Indo-Pacific.

Strategizing Philippine Economic Diplomacy in the New Age of Globalization

Economic diplomacy serves as one of the three major pillars of Philippine foreign policy, along with the preservation and enhancement of national security and the protection of the rights and promotion of the welfare of overseas Filipinos. At the heart of an economic policy, the Philippine government is mandated to align national interests based on the realities it has within its borders and the environment that surrounds it.

In a Pulse Asia survey conducted in January 2022, the most urgent national concerns for a presidential candidate focused mostly on socioeconomic issues which include controlling inflation (48%), the increase in pay of workers (38%), poverty reduction (33%) and the creation of jobs (29%).⁸ These figures show where Philippine economic interest should be focused on when building relations with other states. However, the new age of globalization demands a more defined engagement of markets and trades due to conflicting issues in other areas of state-

to-state or even multilateral relations. This provides an opportunity for individual states to delineate areas of competition, cooperation, and confrontation.

In Southeast Asia, China has continued to maximize the Belt and Road Initiative (BRI) to broaden its network of economic relations and extend its influence on small states, including the Philippines. The BRI is a global infrastructure development and investment program launched by China in 2013 with the goal of increasing connectivity in the region and the rest of the world. Despite marketing an image of a “win-win” program, it has been heavily criticized by the international community due to issues, including the lack of transparency, disregard of democratic procedures, predatory financing, and onerous provisions.

In the Philippines, China committed to providing funding to implement several infrastructure projects under the Duterte administration’s BBB program. As previously mentioned, the administration pursued a foreign policy to harness potential economic benefits from global initiatives such as BRI.

Unfortunately, none of these big-ticket projects funded by China, such as the New Centennial Water-Source Kaliwa Dam Project, the Chico River Pump Irrigation Project, and the Safe Philippines Project, have significantly advanced. Aside from having questionable bidding processes, most of these projects have faced bureaucratic bottlenecks, including lack of financing, corruption issues, environmental degradation, and opposition from civil society organizations. Controversies have also surrounded these projects due to the risks it had concerning national security, the rule of law, transparency, and accountability.

The experience of the Philippines with BRI demonstrates the need to safeguard national interests vis-à-vis the capacity of powerful states in expanding their influence and shaping policies to their benefit. It also shows how economic partnerships can be used as a tool to challenge shared democratic norms and institutions in the region. Despite the challenges and non-fruiting of these, the Duterte administration’s economic and development agenda still prioritized China’s economic largesse.

The next set of leaders must prioritize addressing these major concerns by strengthening economic diplomacy and trade with other states. According to Ambassador Albert Del Rosario, former Foreign Affairs Secretary, economic diplomacy entails efforts to attract foreign investments, spur economic growth as well as encourage development assistance for the Philippines.⁹ He added that prioritizing economic diplomacy will also help the country to generate jobs for

Filipinos and alleviate poverty and hunger. Multilateral cooperation also plays an important role in advancing economic diplomacy.

The Philippine Statistics Authority (PSA) reported in December 2021 that the United States is the country's major trading partner in terms of exports, while China is the biggest supplier of imported goods. Exports to the United States amount to USD 1.01 billion, or a share of 16.1% of the total exports in December 2021. Other major export trading partners include China, Hong Kong, Japan, and Singapore. On the other hand, China contributed the highest imported goods valued at USD 2.14 billion or 18.7% of the total imports in the same month. Other major import trading partners include the US, South Korea, Japan, and Indonesia.

Despite potential risks, economic diplomacy provides opportunities for the Philippines to address the concerns of the public in terms of the country's economic growth and development. The new administration should harness existing economic partnerships and actively participate in regional economic and trade initiatives. Figures 1 and 2 below demonstrate the imports and exports of the Philippines by major partner country.¹⁰

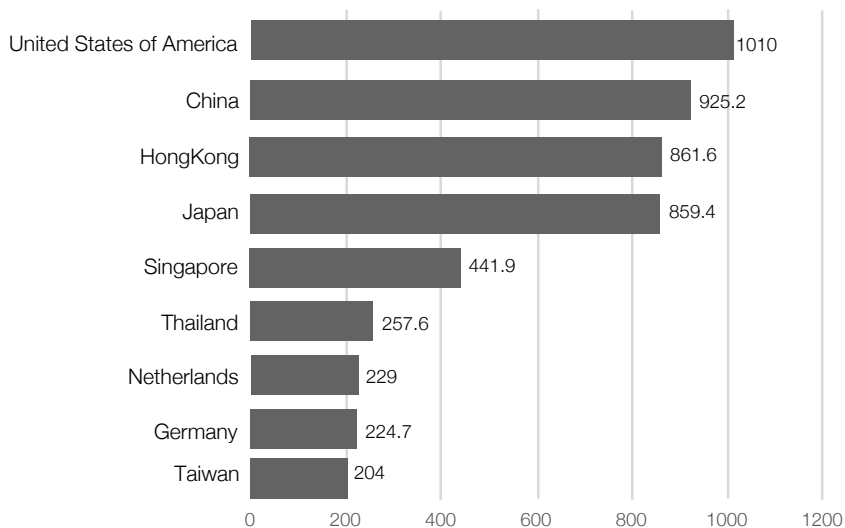
In the broader regional context, the Philippines is at a strategic vantage point relative to the United States, China, and other major players due to its non-threatening stance and its ability to move through the "hierarchical" nature of regional and global affairs. It can further establish a key role in creating an environment for economic development and people-centered prosperity in the Indo-Pacific without undermining the participation of other states.¹¹

Furthermore, the new administration should look into the country's existing regulatory environment as well as its capacity to check and separate advantageous investments and economic partnerships from those that will put the country at risk. As the country continues its economic recovery, economic diplomacy is an area that needs to be prioritized and reinforced. The Philippine government should consider examining or incorporating best practices from global and regional economic initiatives, including the following:

1. Regional Comprehensive Economic Partnership (RCEP) Agreement

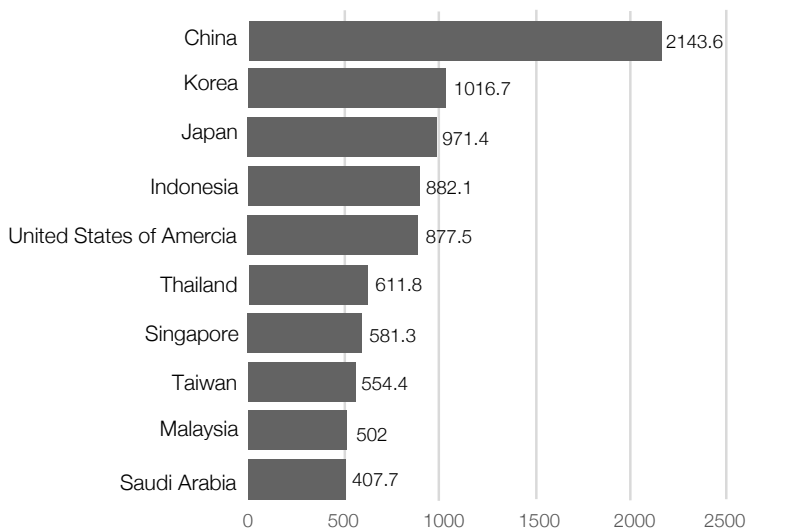
The Regional Comprehensive Economic Partnership (RCEP) Agreement among Brunei Darussalam, Cambodia, Lao PDR, Singapore, Thailand, Vietnam, Australia, China, Japan, and New Zealand was enforced on January 1, 2022. China pushed the RCEP in 2012 to counter the then United States-led Trans-Pacific

Figure 1 . Philippine Exports by Major Partner Country December 2021
(In USD Million)



Source: Philippine Statistics Authority (PSA)

Figure 2 . Philippine Imports by Major Partner Country December 2021
(In USD Million)



Source: Philippine Statistics Authority (PSA)

Partnership. The 16-member partnership is one of the largest free-trade blocs. Under the agreement, trade in goods among members will be subject to zero tariffs, strengthening the economic engagement among states and amplifying their participation in regional economic development.

For South Korea, the agreement commenced on February 1, 2022. As for the remaining five states, specifically India, Indonesia, Malaysia, Myanmar, and the Philippines, the effectivity date of the agreement is still to be determined. For the Philippines, the RCEP trade agreement is expected to improve the country's gross domestic product, foreign direct investments, and exports.

During the latest ASEAN Foreign Ministers Meeting held in Cambodia on February 16 to 17, 2022, Foreign Affairs Secretary Locsin said that the Philippine government would not accept the RCEP ratification instrument of military junta-led Myanmar unless it stood in the way of a consensus in the ASEAN. The RCEP agreement will be enforced 60 days after other states have deposited their instrument of ratification, acceptance, or approval to the Secretary-General of ASEAN. For the Philippines, the Senate has yet to concur with the ratification of the agreement.

2. Build Back Better World (B3W)

The global infrastructure project Build Back Better World (B3W) was launched in June 2021 by G7 countries under the leadership of President Joseph Biden of the United States, Prime Minister Justin Trudeau of Canada, President Emmanuel Macron of France, former Chancellor Angela Merkel of Germany, Prime Minister Mario Draghi of Italy, former Prime Minister Yoshihide Suga of Japan, and Prime Minister Boris Johnson of the United Kingdom.

It is described as a “values-driven, high-standard, and transparent infrastructure partnership led by major democracies,” which aims to fund USD 40 trillion worth of global infrastructure needs in the developing world.¹² The B3W will cover countries from Latin America, the Caribbean, Africa, and the Indo-Pacific and will focus on climate, health, digital technology, and gender equality. The G7 countries will have their respective geographic orientations allowing the project to cover low- and middle-income countries in different parts of the world. Investments from development finance institutions will support the global project.

As a tool for economic diplomacy, the B3W is part of the 2022 Indo-Pacific Strategy of the United States. Given the scale of the infrastructure project, the B3W is seen as an alternative to China's BRI.

3. Indo-Pacific Economic Framework

Aside from the B3W, the United States announced its intent to develop an Indo-Pacific Economic Framework (IPEF) in October 2021. This is the first major trade and economic initiative of the United States in the Indo-Pacific region after former US President Donald Trump's withdrawal from the Trans-Pacific Partnership in 2017. Because of this withdrawal, there are concerns that the United States lacks a strategy to counter China's economic influence in the region.¹³

The IPEF will focus on trade facilitation, digital economy and technology, supply chain resiliency, decarbonization and clean energy, infrastructure, worker standards, and other areas of shared interest. In the latest Indo-Pacific Strategy document, the United States described the IPEF as a multilateral partnership in achieving its economic goals in the region. This includes the following:

- Develop new approaches to trade that meet high labor and environmental standards
- Govern our digital economies and cross-border data flows according to open principles through a new digital economy framework
- Advance resilient and secure supply chains that are diverse, open, and predictable
- Make shared investments in decarbonization and clean energy¹⁴

The United States had an initial engagement with some allies and partners, including Australia, Indonesia, Japan, Korea, Malaysia, New Zealand, Singapore, and Vietnam. Projects include the proposed U.S.-Malaysia Memorandum of Cooperation on Supply Chains, a clean energy partnership between the government and private sector known as the Clean EDGE Initiative, and a proposed Coalition for an Open Internet, U.S.-India Trade Policy Forum, U.S.-Korea free trade agreement (KORUS), and even an infrastructure coordination group within the Quadrilateral Security Dialogue to engage Southeast Asian countries.

4. European Global Gateway

On December 1, 2021, the Global Gateway was launched by the European Commission and the High Representative for Foreign Affairs and Security Policy that aims to fund EUR 300 billion in investments from 2021 to 2027.

The project aims “to boost smart, clean and secure links in digital, energy and transport sectors and to strengthen health, education and research systems across the world.”¹⁵ The Global Gateway project will invest in initiatives in the digital, climate, and energy, transport, health, as well as education, and research sectors.

The European Union launched the Global Gateway to complement the B3W initiative in meeting the “global infrastructure development needs.”¹⁶ It is also aligned with the UN’s Agenda 2030 and its Sustainable Development Goals, as well as the Paris Agreement. Like the B3W, the program is seen as an alternative to China’s BRI.

On February 10, 2022, European Commission President Ursula von der Leyen announced a EUR 150-billion investment in Africa. The announcement was made in a joint statement with Senegal President Macky Sall, who is now the chair of the African Union. The investment in Africa is the first initiative under the Global Gateway scheme since its launch in December 2021.

Promoting Global Cooperation and Collective Problem Solving on Issues

The Quadrilateral Security Dialogue and the AUKUS alliance between Australia, the United Kingdom, and the United States demonstrate the significance of engaging in multilateral and inclusive cooperation in advancing a regional mechanism to navigate an increasingly complex Indo-Pacific. These security dialogues or arrangements are also seen as vital to the peace and stability of the region.

On February 11, 2022, the most recent Quad Foreign Ministers’ Meeting took place in Australia. It was attended by Australian Foreign Minister Marise Payne, Indian Minister of External Affairs Dr. S. Jaishankar, Japanese Minister for Foreign Affairs Hayashi Yoshimasa, and United States Secretary of State Antony Blinken. The ministers discussed their “positive and ambitious agenda” to promote a secure and prosperous Indo-Pacific. They have also expressed their commitment to cooperate on various regional issues such as terrorism, maritime security, and global supply chain challenges.

On maritime security, the foreign ministers reiterated the importance of international law, such as the UNCLOS, and a rules-based international order in managing the issues. In a joint statement, the leaders also reaffirmed their

commitment to a free, open, and inclusive rules-based order. They emphasized the importance of addressing coercive economic policies and practices and upholding and strengthening the rules-based multilateral trading system. Moreover, the ministers discussed other key areas, including climate change, cybersecurity, infrastructure development, education, and critical and emerging technologies.¹⁷

On September 15, 2021, state leaders of Australia, the United Kingdom, and the United States announced an enhanced trilateral security partnership called “AUKUS,” which supports Australia’s acquisition of nuclear-powered submarines. This security partnership aims to facilitate the integration of security and defense-related technology, industrial bases, and supply chains between the three countries to promote stability and their shared interests in the Indo-Pacific. According to Australian Prime Minister Scott Morrison, the AUKUS alliance complements the QUAD and contributes to regional stability. The alliance will also allow Australia to enhance its presence in the Indo-Pacific through the ASEAN, the Quad, and the “Five Eyes” intelligence-sharing arrangement.¹⁸

The latest initiatives of the QUAD and AUKUS can provide countries like the Philippines with a viable tool to participate and contribute to collective problem solving, especially on important security and economic issues in the region. This can also enable the Philippines to foster its diplomatic linkages and economic programs with major players in the region to a level where it is able to have a role in its regional policies yet protect itself from disadvantageous external influence. In a world where “might is right,” the renewed commitment of the QUAD and the rise of AUKUS show that there is strength in numbers to grow and survive in a rapidly evolving Indo-Pacific region.¹⁹

Cooperative Security, Democratic Community and Rule of Law

At the Summit for Democracy held in December 2021, government leaders, civil society and private sector representatives, stressed the need for international cooperation among democratic states. The summit reflected the democratic community’s shared interests to combat corruption, address the rising tide of authoritarianism, and promote human rights. The present global competition is perceived not only in terms of military and economic aspects but also in terms of shared values of democracy. Having a values-based approach is crucial in

collectively managing foreign policy issues which includes the integration and respect for the rule of law.

In the case of the South China Sea, to manage state relations and territorial disputes, the Association of Southeast Asian Nations (ASEAN) has been negotiating with China to develop a Code of Conduct (COC). However, despite the desire to collectively solve the issue, Foreign Affairs Secretary Teodoro Locsin Jr. noted that the negotiations with China for a COC “went nowhere.”²⁰ With Cambodia as the current chair of the ASEAN, the final version of the COC is far from becoming a reality due to Cambodia’s refusal to use language that is critical of China. In the absence of a consensus among its members, the ASEAN must be able to find other areas of cooperation ensuring that integrity and sovereignty of affected ASEAN states are not severely impacted.

During the ASEAN Foreign Ministers Meeting in February 2022, the ministers expressed, in a statement, their concerns about the South China Sea, including land reclamation activities and their damage to the marine environment. These acts have eroded trust and confidence, increased tensions, and undermined peace, security, and stability in the region. The statement also reiterated the association’s commitment to the peaceful resolution of disputes, without resorting to the threat or use of force, in accordance with the principles of international law, including the UNCLOS. At the same time, the ministers also affirmed the importance of an effective and substantive COC.²¹ This highlights the complexity of the South China Sea issue for ASEAN states.

ASEAN should recognize the 2016 arbitral ruling as a leverage in finalizing a COC for the ASEAN and China. This Ruling does not only recognize the Philippines’ right to exercise its sovereignty over these maritime zones, but it also highlights the need to engage in accordance with international law which also addresses tangent issues other claimant states have vis-à-vis China.

Further, to ensure peace and stability in the region, the organization should uphold its principle of centrality and independence to address issues and challenges affecting its member-states. Furthermore, the fulfillment of the ASEAN Outlook on the Indo-Pacific, jointly supported and signed by its members in June 2019, should be given utmost priority.²² The unified vision and strategy seeks to:

1. Guide cooperation;
2. Promote peace, stability, and prosperity while addressing common

challenges, upholding the rules-based regional architecture and promoting closer economic cooperation, and thus strengthen confidence and trust;

3. Enhance the ASEAN community's building process and strengthen existing ASEAN-led mechanisms, such as the East Asia Summit; and
4. Implement existing ASEAN priority areas of cooperation, including joint maritime efforts, connectivity, economic progress, Sustainable Development Goals, and other areas of partnership.

With a new foreign policy in its early stages, the new set of leaders is presented with an opportunity to assert a firmer stance on shared democratic values and international law. Members of the ASEAN are also in the best position to support and rally behind the Philippines to reinforce the 2016 arbitral ruling and contribute to the maintenance of peace, freedom of aviation and navigation in the region as well as the peaceful settlement of disputes founded on the 1982 UN Convention on the Law of the Sea.²³

Multilateralism and the Future of Global Governance

The future of the Indo-Pacific will largely depend on the development of multilateral and inclusive cooperation among like-minded states, including the United States, Australia, Japan, India, and members of the EU. In the new age of globalization, ongoing efforts in cooperation focus on global health and the pandemic, climate change, digitalization, cybersecurity, trade and investment, and terrorism.

As more states introduce and realign their foreign policy, countries like the Philippines should use the opportunity to create additional channels for cooperation. Given the current international order, attempts to move toward a unilateral world would not benefit the region as it would only heighten risks and affect the dynamics between major players. On the other hand, fostering multilateral and inclusive cooperation would create a mechanism that will enable the region to manage power shifts and collectively address various challenges, including those that are transnational. Advancing this initiative would also be beneficial in protecting international law and promoting a rules-based international order. The Philippine government should learn and strategize through its existing alliances and partnerships to advance its strategic interests

and contribute to the global effort of promoting a Free and Open Indo-Pacific.

As part of an interconnected and networked international society, the Philippines must develop a more responsive and strategic foreign policy that will effectively contribute to the ongoing efforts to collectively manage global and regional issues. Fostering multilateral and strategic partnerships is imperative if the Philippines is to recover from the consequences of the current administration's foreign policy decisions and be rightly aligned with the growing global alliance advancing a free and open Indo-Pacific.²⁴

The new administration should consider the various Indo-Pacific strategies being pushed by the international community in formulating its own policy and engagement policy, such as the following:

1. United States Indo-Pacific Strategy

On February 11, 2022, the United States released its official Indo-Pacific strategy, which focuses on pursuing a free and open, connected, prosperous, secure, and resilient region. The strategy outlines the Biden administration's vision to anchor the United States in the Indo-Pacific and strengthen the region in the process. The United States seeks to pursue five main objectives together with its allies and partners in the region, as well as with regional institutions. These objectives include the following:

- Advance A Free and Open Indo-Pacific;
- Build Connections Within and Beyond the Region;
- Drive Regional Prosperity;
- Bolster Indo-Pacific Security; and Build Regional Resilience to Transnational Threats.

Among the challenges mentioned in the document, the strategic competition with China continues to be a primary security concern for the United States. It explains in detail how China has continued to use its economic, diplomatic, military, and technological capabilities to broaden its influence in the Indo-Pacific to become the “world's most influential power.”

The document also reiterated the commitment of the United States to promote a rules-based international order and a free and open Indo-Pacific. Moreover, the strategy highlighted the role and importance of Washington's alliances and

partnerships with the Philippines, Thailand, Australia, Japan, South Korea, Indonesia, Malaysia, Singapore, and Vietnam.

The Indo-Pacific strategy serves as a direct response to China's coercion and aggression against the allies of the United States. This includes its economic coercion of Australia, its territorial conflict with India, its ambition to "reclaim" Taiwan, and its gray zone activities in the disputed waters of the East and South China Seas. The US Indo-Pacific Strategy seeks to build a "balance of influence in a maximally favorable world" to the United States and its allies. Other challenges mentioned in the strategy are climate change and the global pandemic. It also stated that China is undermining human rights and international law, which includes freedom of navigation, a crucial element in maintaining the stability and prosperity of the Indo-Pacific region.²⁵

2. Japan's Free and Open Indo-Pacific (FOIP)

The vision of a Free and Open Indo-Pacific (FOIP) was first introduced by former Japanese Prime Minister Shinzo Abe in August 2016. Due to China's maritime expansion in the region and their territorial dispute in the Senkaku Islands, Japan pushed to develop and reinforce its Indo-Pacific strategy. Under the FOIP, Japan aims to promote peace, stability, and prosperity across the Indo-Pacific by ensuring a rules based international order including the rule of law, freedom of navigation and overflight, peaceful settlement of disputes, and promotion of free trade.²⁶

Japan's FOIP mentions three pillars:

- Promotion and establishment of the rule of law, freedom of navigation, free trade, etc.
- Pursuit of economic prosperity (improving connectivity and strengthening economic partnership including EPA/FTAs and investment treaties); and
- Commitment for peace and stability (capacity building on maritime law enforcement, HA/DR cooperation, etc.).

According to Prime Minister Fumio Kishida, Japan's initiative to work together with like-minded states such as the United States, Australia, and India will allow deeper cooperation towards the goal of a free and open Indo-Pacific.²⁷ In a recent

meeting with President Biden, Prime Minister Kishida renewed his commitment to working closely with the US and its allies and partners in the Indo-Pacific. The two leaders also reaffirmed their support for ASEAN centrality to strengthen cooperation in Southeast Asia. They also underscored the importance of the QUAD as a critical forum to promote FOIP and deliver important assistance in areas such as COVID-19 response, climate change, and infrastructure.²⁸

Japan has continued to strategically promote efforts to achieve FOIP through its programs and initiatives.²⁹ These initiatives include the following:

- Promoting public diplomacy on maritime order and sharing insights on the international law of the sea with the world;
- Rule-making to expand a free and fair economic order;
- Securing connectivity across the Indian Ocean and the Pacific;
- Enhancing governance through capacity building; and
- Ensuring maritime security and safety.

3. QUAD and the Indo-Pacific

The leaders of the Quadrilateral Security Dialogue, including the United States, Japan, Australia, and India, have emphasized the vital role of QUAD cooperation in the Indo-Pacific region. Cooperation among these states began after the Indian Ocean tsunami in 2004. Currently, the group has been engaging in multilateral cooperation in the areas of security, economic, and health issues.

In the fourth QUAD Foreign Ministers Meeting in Melbourne, Australia on February 11, 2022, the ministers reaffirmed their respective country's support for the Indo-Pacific. The region is envisioned to be "inclusive and resilient, and in which states strive to protect the interests of their people, free from coercion."³⁰

Cooperation among QUAD members is reflected in their commitment to donate 1.3 billion vaccine doses globally. In their joint statement, the group announced that a total of 500 million vaccine doses had been distributed around the world. The QUAD also welcomed India's pledge for safe and effective COVID-19 vaccines. The groups' vaccine production is in the Biological E Ltd facility in India. In addition to this, Australia also pledged USD 212 million in grant aid to purchase vaccines in the Indo-Pacific and another USD 219 million for vaccine rollouts and other COVID-19 vaccine initiatives.

Aside from efforts on the COVID-19 pandemic, the members are also

committed to establishing responsible and resilient clean-energy supply chains under the leadership of Australia. In their joint statement, the group announced that it would be organizing an Indo-Pacific Clean Energy Supply Chain Forum in July 2022. The said forum will provide an avenue for states to collectively identify challenges and provide solutions on clean energy supply chains in the Indo-Pacific region.

These are some of the efforts initiated by the QUAD in their commitment to advance a free and open Indo-Pacific region. While the US and Japan have their respective Indo-Pacific strategies, Australia has emphasized the importance of the Indo-Pacific region in its 2020 Defence Strategic Update, while India has launched its Act/Look East Policy which also highlights its support for a free and open region.

4. European Union Strategy for Cooperation in the Indo-Pacific

The European Union took note of the vital role of the Indo-Pacific in terms of security and economic growth. Consequently, it acknowledges its role as a significant partner in the region. Released in April 2021, the EU Strategy for Cooperation in the Indo-Pacific aims to promote an open and rules-based regional security architecture. The seven priority areas in this strategy include sustainable and inclusive prosperity, green transition, ocean governance, digital governance and partnerships, connectivity, security and defense, and human security.³¹

Toward a free and open Indo-Pacific region, the European Union aims to build partnerships and maintain a rules-based international order. It will do so by conducting more joint exercises, and port calls with its partners in the region, including multilateral exercises, to address piracy and protect freedom of navigation. The EU also plans to conduct dialogues with its partners on security and defense, including areas such as counter-terrorism and cybersecurity. Under the strategy, the EU also expressed commitment to ensure maritime security.

In addition, a joint communication was released on September 16, 2021, that mentioned the EU's intention to have a multifaceted engagement with China. The EU is open to working bilaterally with Beijing on issues of shared interests, and it also emphasized that its strategy is "one of cooperation, not confrontation."³²

5. ASEAN's Indo-Pacific Outlook

The Association of Southeast Asian Nations (ASEAN) launched ASEAN Outlook

on the Indo-Pacific during the 2019 ASEAN Senior Officials Meeting (SOM) held in Bangkok, Thailand. The document highlights the importance of the Asia-Pacific and the Indian Ocean regions as among the “most dynamic in the world as well as centers of economic growth.”³³ The ASEAN Outlook on the Indo-Pacific was negotiated after then US President Donald Trump introduced the Free and Open Indo-Pacific (FOIP) Strategy in 2017 during his Asia tour. The document recognizes the centrality of the ASEAN in the regional geopolitical shifts, which are a result of the competition between the United States and China.

The ASEAN Outlook in the Indo-Pacific highlights the role of ASEAN-led mechanisms such as the East Asia Summit as a platform for dialogue and cooperation among states. Priority areas of cooperation include maritime cooperation, connectivity, the UN Sustainable Development Goals (SDGs) 2030, economic development, and other possible areas of cooperation. Through this Indo-Pacific Outlook, the ASEAN reiterates its central role in navigating the complex regional architecture of Southeast Asia and the Indo-Pacific. The document also emphasizes the commitment of the ASEAN to a rules-based international order that hinges on “international law, openness, transparency, inclusivity, and commitment to advancing economic engagement in the region.”³⁴

Toward A More Responsive and Strategic Philippine Foreign Policy

As various challenges continue to emerge from the current international order, the Philippines must reassess its position in the region and work towards the development of a more responsive and strategic foreign policy. This will involve the development and implementation of a long-term program that will focus on the re-evaluation of the country’s foreign policy direction, economic initiatives, and the establishment of new alliances and strategic partnerships. With the international community’s support, it is high time that the Philippine government moved on from the small-state narrative and worked its way up to become a more relevant player in the region.

Given the lessons from previous administrations, the new set of leaders can push for policies and initiatives that are consistent with the interests of the Filipino people. The results of the Social Weather Stations survey commissioned by Stratbase conducted last October 2021 provide significant insights regarding

Table 1 . Social Weather Stations Survey

TEST STATEMENT: “The next Philippine government should assert its right on the islands in the West Philippine Sea as stipulated in the 2016 decision of the Permanent Court of Arbitration.” Oct 2021

	Agree	Undecided	Disagree
Philippines	82%	14%	4%
NCR	87%	9%	5%
Balance of Luzon	85%	12%	2%
Visayas	77%	16%	7%
Mindanao	77%	20%	3%

Source: Social Weather Stations (SWS)

Table 2 . Social Weather Stations Survey

TEST STATEMENT: “The next Philippine president of the Philippines should form an alliance with other countries in defending the Philippines’ territorial and economic rights in the West Philippine Sea.” Oct 2021

	Agree	Undecided	Disagree
Philippines	85%	12%	3%
NCR	88%	8%	4%
Balance of Luzon	88%	8%	4%
Visayas	82%	13%	4%
Mindanao	78%	19%	2%

Source: Social Weather Stations (SWS)

the thoughts of Filipinos on several key security issues. According to 82% of Filipinos, “the next Philippine government should assert its right on the islands in the West Philippine Sea as stipulated in the 2016 decision of the Permanent Court of Arbitration” (Table 1). In addition, 85% agreed that “the next President of the Philippines should form an alliance with other countries in defending the Philippines’ territorial and economic rights in the West Philippine Sea” (WPS) (Table 2). In line with this, the Philippines should rely on countries that recognize and support the 2016 arbitral victory.

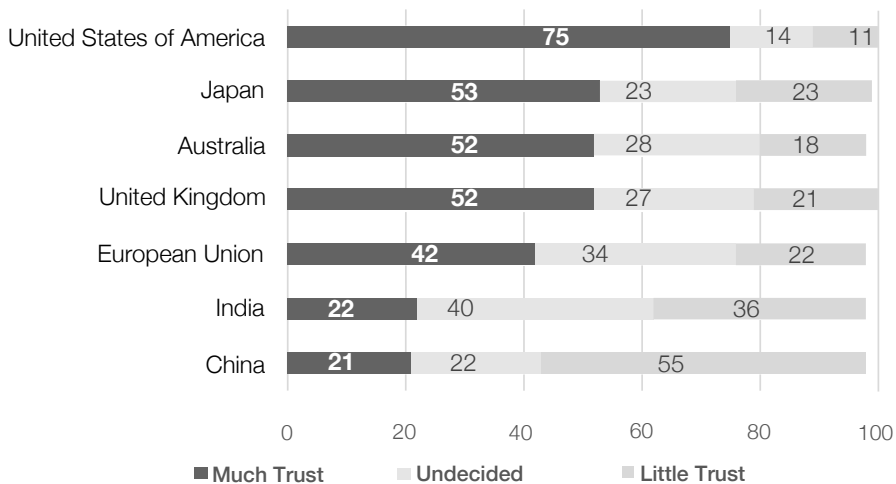
Moreover, the Philippine government should also prioritize partners that promote a rules-based international order. Regarding security alliances, it is only natural to cooperate with trusted countries to advocate for a rules-based regional order and to assert the Philippines’ sovereign rights in the West Philippine Sea. Thus, the same survey indicated that the Filipinos trust the United States of

America (75%), Australia (52%), the United Kingdom (52%), Japan (53%), the European Union (42%), and India (22%). Remarkably, China remains to be the least trusted country, with only 21% of Filipinos registering “Much Trust” while the majority (55%) responding with “Little Trust” (Figure 3).

On the question “What should the next president do on the WPS issue?” Filipinos want a president who will “Strengthen the military capability of the Philippines” (80%), “Conduct joint military patrols and military exercises with allied countries” (65%), and “Fully implement the terms of the Visiting Forces Agreement or VFA and the Enhanced Defense Cooperation Agreement or EDCA” (58%) (Table 3). These are followed by the “Finalization of the ASEAN Code of Conduct in the South China Sea” (45%), and “Bring the issue to the United Nations General Assembly” (40%). Furthermore, 79 % said that the “building of infrastructures on the vacant islands in the West Philippine Sea to assert our rights to these islands” is “Important” (Table 4).

The 2022 elections provide an opportunity for the Filipino people to elect leaders who will prioritize the country’s strategic interests and actively pursue multilateral and inclusive cooperation with like-minded states, including the

Figure 3 . Trust in the United States, Australia, United Kingdom, Japan, European Union, India and China (October 2021)



Source: Social Weather Stations (SWS)

United States, Japan, Australia, India, and the EU. Filipinos deserve a leader who will not only protect their welfare but also push for shared democratic values and contribute to the maintenance of peace and stability in the Indo-Pacific.

In a nutshell, a more responsive and strategic foreign policy in the next six years and beyond should therefore be cognizant and considerate of the following

Table 3 . Effective Measures that the Next President Should Do on the West Philippine Sea Issue (Overall)
(Philippine, October 2021)

Strengthen military capability of the Philippines, especially the Navy and Coast Guard	80%
Conduct joint maritime patrols and military exercises with allied countries	65%
Fully implement the terms of the Visiting Forces Agreement of VFA and the Enhanced Defense Cooperation Agreement or EDCA	58%
Finalization of the ASEAN Code of Conduct or an agreement on how countries would act within the South China Sea	45%
Bring this issue to the United Nations General Assembly	40%

Source: Social Weather Stations (SWS)

Table 4 . Perceived Importance of the Philippine Government Building Infrastructures on the Vacant Islands in the West Philippine Sea to Assert Our Rights to these Islands
(Philippine, October 2021)

Important	79%
Undecided	13%
Not Important	8%

Source: Social Weather Stations (SWS)

conditions and factors: the configuration of Philippine national interest with the evolving interconnectedness and multipolarity, economic diplomacy as the primary means of showing the contribution of both state and non-state actors in national development and international diplomacy, equal consideration to various factors affecting human security, the continuing importance of alliances and strategic partnerships in navigating the changing international order and the public perception on how government should act on international issues and developments.

In line with this, this paper suggests that the next administration consider the following policy recommendations:

1. *Implement a clear, cohesive, and consistent foreign policy direction.* The implementation of the current administration's independent foreign policy, along with the absence of clear guidelines and its opaqueness and inconsistency, has affected the regional standing and position of the Philippines. The decision of President Duterte to move the country away from its allies and foster alliance with non-traditional partners ultimately changed the foreign policy direction of the country and heightened more risks. The narrative that small states have no place in regional affairs have also affected the country's ability to advance its national interests. Moving forward, the new administration should provide and implement a clear, cohesive, and consistent foreign policy that prioritizes the country's national interests. Given the support of the international community, the Philippine government should chart a new foreign policy direction and develop long-term partnerships with like-minded states in order to create more opportunities for the country to participate and strategically position itself in regional and global affairs.

2. *Develop the country's comprehensive power according to its military, economic, scientific, and cultural capabilities.* The complexity of foreign policy issues is relative to the inherent level of power of a state. In the case of the Philippines, it must be able to allocate its resources, in line with its policy prioritization agenda, current to long-term plan for infrastructural, institutional and human capacity, and overall national development and security strategy.

3. *Uphold national sovereignty and territorial integrity in the West Philippine Sea.* The paper has emphasized how renewed tensions in the disputed waters have become a major foreign policy concern for the Philippines. Aside from their impact on national sovereignty and territorial integrity, gray zone operations and the militarization of the West Philippine Sea have affected the country's marine resources and the livelihood of its fishermen. Against this regional situation, the new administration should re-evaluate its position on China or any state that could compromise peace and stability in the West Philippine Sea. Although diplomacy and the peaceful settlement of disputes are important, the Philippine government must not allow any state to circumvent international law and threaten the country's national security. The new administration should prioritize the development of policies that will allow the country to step up and strategically work with allies

and partners to ensure that international laws, treaties, and agreements in the preservation of a rules-based international order are being strictly followed. The Philippine government must also uphold its national sovereignty and territorial integrity through the 2016 arbitral victory and collective action with the international community.

4. Foster multilateral and inclusive cooperation through alliances and strategic partnerships. Given the increasing interconnectedness of states and the potential risks brought by various traditional, and non-traditional challenges, the relevance of multilateral cooperation in collectively finding solutions have become more important than ever. Leveraging on alliances and strategic partnerships will be beneficial not only in terms of diplomacy and security but also in other areas including economic development. In the case of the Philippines, strengthening its relations with like-minded states such as the United States, Australia, Japan, India, and the EU will allow the country to effectively respond to and navigate the complex geopolitical backdrop of the Indo-Pacific region. Engaging in multilateral and inclusive cooperation will also enable the Philippines to contribute to the global effort of promoting shared democratic values and a rules-based international order.

5. Prioritize Economic Cooperation and Participation in Regional and Global Economic Initiatives. Economic diplomacy plays an important role in advancing the national interests of the Philippines. As the country continues its economic recovery, the new administration should prioritize and reinforce this core element in developing its foreign policy to attract foreign investments, generate new jobs, and spur economic growth. By maximizing the opportunities brought by existing economic partnerships and actively participating in regional and global economic initiatives, the Philippine government can efficiently address the concerns of the public in terms of long-term economic growth and development. It is also important for the new administration to clearly draw a line between security and the economy. By opening the country's channels to potential economic partners including states that are involved in territorial dispute in the West Philippine Sea, the Philippines can continue its pursuit of shared development and prosperity for its people. It is important, however, to assess and evaluate the country's existing regulatory environment and

its capacity to check and separate advantageous investments and economic partnerships from those that would put the country at risk.

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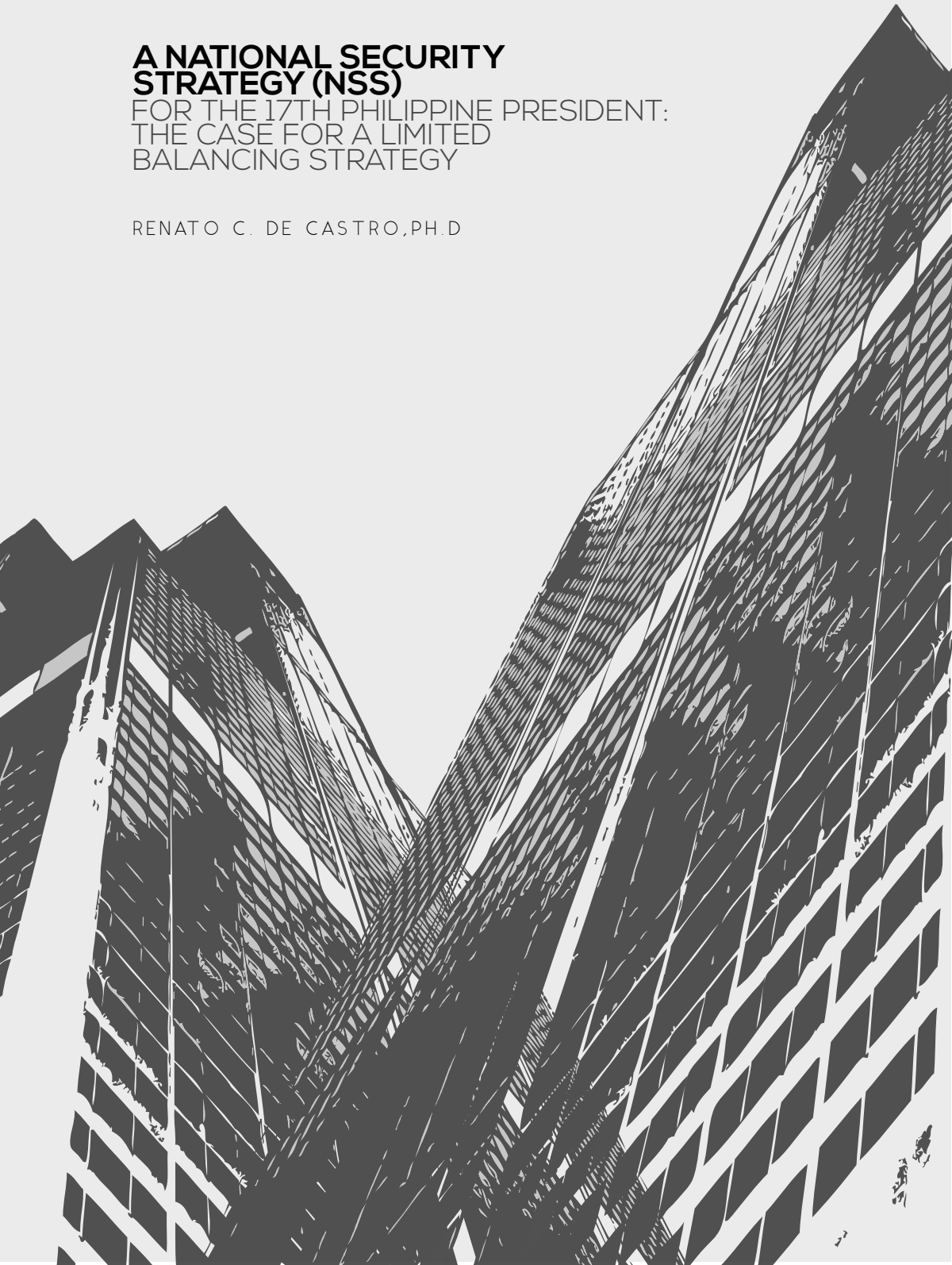
³³ ASEAN. (2019, June 22). ASEAN Outlook in the Indo-Pacific. Retrieved from ASEAN: https://asean.org/asean2020/wp-content/uploads/2021/01/ASEAN-Outlook-on-the-Indo-Pacific_FINAL_22062019.pdf

³⁴ Ibid.

A NATIONAL SECURITY STRATEGY (NSS)

FOR THE 17TH PHILIPPINE PRESIDENT:
THE CASE FOR A LIMITED
BALANCING STRATEGY

RENATO C. DE CASTRO, PH.D



A NATIONAL SECURITY STRATEGY (NSS) FOR THE 17TH PHILIPPINE PRESIDENT: THE CASE FOR A LIMITED BALANCING STRATEGY

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The major security conundrum that has confronted the Philippines since the second decade of the 21st century is China's expansion into the West Philippine Sea. In March 2010, China declared the South China Sea as one of its "core interests," indicating its determination to assert its rights over the disputed waters. At the same time, top-level Chinese officials abandoned their moderate public posture on the maritime dispute, and became increasingly forceful and nationalistic. They constantly harped on China's emergent status, the decline of the U.S., and their unwavering claim of sovereignty over the East China and South China Seas. They portrayed China as a reactive and defensive victim of increasing maritime encroachments by two militarily weak middle powers—Vietnam and the Philippines—and the unwarranted meddling of the U.S. By 2011, China's militant nationalism, growing naval prowess, and unilateral actions are overtly directed against a militarily-weak Southeast Asian country—the Philippines.

The late President Benigno Aquino III implemented a strategy of balancing or challenging China's expansive maritime claim in the West Philippine Sea. He countered China by shifting the Armed Forces of the Philippines' (AFP's) focus from domestic security to territorial defense; bolstering closer Philippine-U.S. security relations; acquiring American military equipment; seeking from Washington an explicit security guarantee under the 1951 Mutual Defense Treaty (MDT); and promoting a strategic partnership with Japan.

President Rodrigo Duterte unraveled his predecessor's strategy of balancing China's expansive claim in the South China Sea when he became the 16th Philippine president in mid-2016. At the onset of his term, President Duterte managed the West Philippine Sea dispute according to China's terms, i.e., bilateral negotiations, setting aside the July 12, 2016 arbitral awards to the Philippines, preventing third parties from interfering in the dispute, and joint development. Unfortunately, these efforts have not prevented China from pursuing its goal of maritime expansion and in the process, employing coercive actions against AFP units stationed in some of the Philippine-occupied land features in the West Philippine Sea.

After more than five years of pursuing a policy of appeasement toward China, the defense, military, and foreign affairs establishments are questioning President Duterte's policy and are pushing for a grand strategy aimed at constraining China's revisionist agenda in the South China Sea. The current administration is pondering on a grand strategy of "limited hard balancing" to constrain the hegemon's revisionist agenda.¹

Specifically, this strategy requires building up the Philippine military's external defense capabilities, maintaining its alliance with the U.S., and making security arrangements with other middle powers like Japan, South Korea, and Australia. Its goals are to develop a credible defense capability for the armed forces; while at the same time, to promote and strengthen comprehensive and strategic alliances the Philippines has forged with its friends and partners in the international community.² As a middle power in a changing Indo-Pacific region, the Philippines is at a crossroads on whether it will continue to pursue its policy of appeasing China or adopt a policy of limited hard balancing.³

This paper examines the prospect of limited hard balancing as the next administration's grand strategy in the next six years. It raises this question: why should the next administration consider limited hard balancing as its grand strategy in a changing Indo-Pacific region? What differentiates it from the previous administrations' grand strategies? It also addresses the following questions: 1) What is limited hard balancing? 2) Why did the Duterte Administration earlier adopt a policy of appeasement on China? 3) How did it implement this policy? 4) How are military and the defense and foreign affairs departments pushing back against this policy of appeasement? 5) How can the next administration implement a policy of limited hard balancing in the next six years?

Varieties of Grand Strategies and the National Security Strategy (NSS)

Any serious and enlightened president must be guided by a strategy to prevent his or her country from being subjected to the malevolent actions of other states, and to minimize the possibility of being a victim of accidental events or tragic circumstances or plain misfortunates. A strategy is necessary for him or her to always maintain and retain the political initiative and prevent the adverse effects of unexpected international events and developments.⁴ It magnifies a president's foresight and determination that will enable him or her to effectively combine willingness and opportunities to achieve wide, and predetermined objective through skillful decisions that minimizes political and economic costs.⁵ An incoming president must begin his or her term with a grand strategy.

A grand strategy is far less variable than foreign policy which changes from one administration to another. It consists of a set of ideas for using a nation's resources to achieve its interests over the long run. The term "grand" signifies the large-scale nature of the strategic undertaking in terms of time (long-term, ideally measured in decades), stakes (the interests concerned are the large, important, and most enduring and vital ones), and comprehensiveness (the strategy provides a blueprint or guiding logic for nation's policies across many areas).⁶

A grand strategy involves the purposive application of military, diplomatic, and economic instruments of statecraft to realize particular goals.⁷ It is often defined in terms of national security, power, and wealth, but the ends point to valued public goods such as national honor, stability, territorial integrity, and freedom from fear and coercion. It combines military and diplomatic strategy as it integrates all elements of national power in policies calculated to advance or defend national interests and concerns in light of both anticipated and unanticipated trends and events in the global society.⁸ Great powers view their grand strategy on a global basis; some middle powers see it on a regional scale; and smaller powers focus it on their territorial borders and internal or domestic security concerns.

A president chooses or designs his or her grand strategy on his or her deep-seated belief on how the country should deal with the international challenges or opportunities it faces at a given point in history. National leaders should view grand strategy as means to maintain and or strengthen their hold on executive power.⁹ The National Security Strategy or NSS, contains a country's grand strategy.

It represents a state's plan for the coordinated use of all the instruments of national power—from diplomacy to the military capability—to pursue the objectives that defend and advance the national interests.

A key security challenge that states face, at any given point in time, is how they should address uncertainties generated by an emergent power bent on altering the status quo. States can adopt three grand strategies to manage this systemic trend: balancing, appeasement and limited hard balancing. The aim of balancing is to strengthen the state's ability to defend its vital interest in the face of a perceived threat through some combination of internal mobilization for arms-build up and alliance formation, though typically leaders do attach greater weight to one strategy or the other.¹⁰ Appeasement involves extending concessions to an emergent power in the hope that its aggression will be moderated or terminated, sparing the appeasing state a costly war and possibly a peaceful and cooperation relations with the emergent power. States can also pursue limited hard balancing, which relies on limited arms build-up and semiformal alliances such as strategic partnerships that allow joint efforts and sharing of strategic resources but not offensive warfare or operational coordination.¹¹

The Aquino Administration's Balancing Strategy

Since 1992, the three previous administrations (Ramos, Estrada, and Arroyo) pursued routine and low-politics foreign policy agenda aimed at economic diplomacy and protecting the welfare and interests of Overseas Filipino Workers (OFWs) throughout the world. The late President Aquino altered this pattern by challenging China's expansive maritime claim in the South China Sea. In effect, the Philippines got involved again in a classical geo-political game among the great powers in East Asia. He pursued a strategy of balancing although his administration was never able to come out with a formal NSS. This was because during his early months in office, President Aquino showed little interest in foreign relations and strategic matters. He, however, was overtaken by unexpected international developments which forced him to pay more attention to foreign policy and security matters than what he initially anticipated in mid-2010.

A vital component of the Aquino Administration's balancing policy toward China was its decision to shift the AFP from its focus on internal security to

territorial defense. Emboldened by the strong public support during the 2012 Scarborough Shoal stand-off, the beleaguered Aquino Administration hastened to establish a modest but “comprehensive border protection program” against Chinese creeping expansionism in the South China Sea. In December 2012, six months after the tense Scarborough Shoal stand-off, President Aquino signed into law Republic Act 10349 extending the AFP modernization program of 1995. This military modernization has been anchored on the surveillance, deterrence, and border patrol capabilities of the Philippine Air Force (PAF), the Philippine Navy (PN), and the Philippine Coast Guard (PCG) that extend from the country’s territorial waters to its contiguous and EEZ.¹²

The March 2015 Defense Planning Guidance for 2016-2022 emphasized the importance of defending “the country’s territorial integrity and sovereignty, specifically in the West Philippine Sea (South China Sea)” which accordingly “poses the foremost security challenge” to the Philippines and the AFP.¹³ It also accentuated the need to maximize all available resources at the government’s disposal to achieve a credible defense posture in territorial defense and maritime security.¹⁴ The planning guidance for the AFP provides for the acquisition of weapons systems that can enable the PN: a) to monitor the Philippines’ vast maritime territory by developing the essential surface and air capability to survey and monitor Philippine-controlled islands in the South China Sea and to prevent unoccupied island/reefs from being occupied other claimant states;¹⁵ and b) to deter external threats and protect the country’s maritime interests. In effect, the guidance aims to build an effective force presence in the maritime domain that exhibits competence to defend the territory, if necessary.¹⁶

The Aquino Administration also discarded the policy of equi-balancing between the U.S. and China, as it fostered closer security cooperation with the former as a matter of policy. It bolstered deeper Philippine-U.S. security arrangements; requisitioned American military equipment; and sought from Washington an unequivocal security guarantee under the 1951 MDT. The most salient component of this foreign policy was the two countries’ signing of the Enhanced Defense Cooperation Agreement (EDCA) on 28 April 2016. The EDCA provides American forward-deployed forces strategic rotational presence in Philippine territory, as well as broad access to Philippine military facilities.

Similarly, the Aquino Administration forged closer security relations with Japan, another U.S. ally and China’s rival in East Asia. On the one hand, then

Prime Minister Shinzo Abe committed to provide 10 patrol boats to enable the PCG to safeguard the Philippines' maritime territory. On the other hand, former President Aquino endorsed Prime Minister Abe's move to reinterpret the 1947 Japanese Constitution allowing the SDF to assist allies like the U.S. and possibly, the Philippines in case of an armed confrontation with China in the South China Sea.

The Philippines also filed the claim against China in the International Arbitral Tribunal of the United Nations Convention on the Law of the Sea (UNCLOS) in January 2013. The Aquino Administration saw it as a significant move to peacefully resolve the territorial dispute. China, however, flatly rejected the Philippines' plan to resolve the issue before the arbitral tribunal of the UNCLOS and insisted that the dispute be settled through diplomacy and bilateral negotiations. In filing the claim against China, the Philippines sought a multilateral and legal solution to the maritime dispute in which the interests of the international society were at stake.

The Duterte Administration's Appeasement Strategy

The unexpected election of President Rodrigo Duterte as the Philippines' 16th president in May 2016, was viewed as an adverse consequence of the Philippines' long and oftentimes, troubled experience with liberal democratic governance, and an example of the popular disillusion toward the political and economic elite that has become a global trend.¹⁷ He surprised many of his countrymen as he downgraded the Philippines' long-standing alliance with the U.S., alienated Australia and the European Union, and announced his plan to move closer to China and Russia.¹⁸ He expressed doubts about the Philippines' reliance on the U.S., questioning its willingness to defend the Philippines in any armed engagement over its territorial dispute with China in the South China Sea. He also made wide-ranging changes in the alliance as he reduced the frequency and scale of various joint exercises, terminating joint Philippine-U.S. patrols in the South China Sea, and raising the possibility of terminating the various security agreements such as the 1951 MDT, the 1999 VFA, and even the 2014 EDCA.

He announced that he was seeking to improve relations with China. He was candid about his intention to change Manila's hardline policy toward Beijing. This

was manifested when he reacted with sobriety and extreme caution when the United Nations Convention on the Law of the Sea (UNCLOS) Arbitral Tribunal came out with the July 12, 2016 award to the Philippines that ruled that China's extensive maritime claim and expansionary moves in the South China Sea have no legal basis. Then, few months later, he opportunistically announced that he was ready to set aside the arbitral ruling as he sought trade, economic, and diplomatic concessions from China. Indeed, his open contempt on the Philippines' alliance with the U.S., his positive pronouncements on China, and his willingness to accept Beijing's preferred means of managing the South China Sea dispute, such as direct bilateral negotiations and joint development, are diametrically at odds with the conventional design and trajectory of 21st century Philippine foreign policy on these important issues.¹⁹

The Duterte Administration accepted China's core procedural norms for dealing with the South China Sea dispute—shelving the sovereignty issue, discussing the conflict in bilateral forums, and agreeing on bilateral engagements such as joint development, strengthening of bilateral trade and increased trade—in exchange for Chinese support for Philippine development.²⁰ The Philippines' 180-degree shift in its South China Sea policy should be understood in the context of China's growing political influence over the Association of Southeast Asian Nations (ASEAN) member states through its massive involvement in infrastructure development that individual Southeast Asian countries is promoting.²¹

The 2018 National Security Strategy (NSS) and the Shift to Limited Hard Balancing

On 16 May 2018, President Duterte signed the first National Security Strategy (NSS) since the Philippines became an independent republic in 1946.²² The NSS paints a realist picture of the country's external environment. It indicates that the Philippines has not been confronted by any direct threat of foreign aggression since the end of the Second World War. Nevertheless, it warns that the current regional security environment has become increasingly uncertain and dangerous for the country. The 2018 NSS did not mention any specific country that threatens the Philippines. Instead, it raised three important issues concerning the Philippines' external security environment.²³

1. The perils of traditional geo-strategic threats as competing interests of the great powers and other countries converge, requiring the Philippines to chart its role in an increasingly multipolar system.
2. The need for the Philippines to be fully equipped not only to deter potential aggressors but also to protect the archipelago from international terrorists, pandemics, transnational crimes, and natural disasters.
3. The necessity for the Philippines to develop a credible defence capability and to strengthen its comprehensive strategic alliances or cooperation with its friends and security partners in the international community.

The release of the 2018 NSS coincided with a shift in Philippine policy towards China from appeasement to limited hard balancing. This shift can be partly attributed to the Philippine military's stance *via-a-vis* China's expansion into the South China Sea. The AFP is one of the important institutions in Philippine society that has been very suspicious of President Duterte's pivot to China. Distrust of China runs deep in Philippine society, particularly in the military circles, where Beijing's motives are often seen in the context of the two countries' chronic long-running dispute over territory in the South China Sea.²⁴ The AFP is suspicious of Chinese funding of Philippine infrastructure projects and is skeptical of closer Philippine-China security relations. This stems from its mandate to protect the country's territory in the face of Chinese occupations of several land features deep in the country's economic exclusive zone (EEZ). It is still pro-U.S. and it believes that the territorial dispute with China in the South China Sea is a major road block for regional peace and long-term cooperation between the Philippines and China.

In late July 2018, the Philippine government complained to China about the increase in offensive Chinese radio warnings against Philippine aircraft and ships flying and sailing respectively near Chinese reclaimed and fortified islands in the South China Sea. In April 2019, in a diplomatic protest, the DFA questioned the presence of a large number of Chinese fishing vessels around Philippine-occupied islands and accused Beijing of applying a swarming tactic to support its coercive objectives against the country.²⁵

In applying its appeasement policy towards China, the Duterte administration

extended key diplomatic concessions to China. It has not, however, aligned or subordinated Philippine foreign policy to China's revisionist agenda of maritime expansion. The reason is simple, despite its efforts to appease China, the current administration does not want to put the fate of the Philippines in the hands of a more powerful and aggressive China. By appeasing an expanding power, which is the source of security threat through its aggression and expansion, the Philippines accepts and faces greater vulnerability in false hope that Chinese appetites for further expansion into the West Philippine Sea are sated or diverted.

This is evident in the Duterte administration's three important policies: a) the continued funding of the AFP modernization program to develop the Philippine military's territorial defense capabilities against China; b) downgrading the Philippines' security relations with the U.S., but keeping the alliance intact, allowing the holding of several Philippine-U.S. joint military exercises in the South China Sea, and even seeking for a clearer U.S. security guarantee as provided by the Philippine-U.S. 1951 Mutual Defense Treaty (MDT); and c) bolstering the Philippines' security partnerships with Japan (China's traditional rival in East Asia) and Australia.

Continuing the AFP Modernization Program

The Duterte Administration's pondering on a policy of limited balancing on China is best manifested by its decision to proceed with the long-term AFP modernization program. In July 2019, the PAF re-established the Philippines' Integrated Air Defense System to protect the country's airspace from aerial threats. The re-activation of the Philippine air defense system was made possible by the PAF's acquisition of Korean-made 12 FA-50 PH Fighter Eagle lead-in fighter planes from Korea Aerospace (KAI) for PhP18.9 billion (estimated USD 400 million).²⁶ This was the PAF's first major aircraft acquisition after the Philippine bought 25 F-8 Crusader fighter-bombers from the U.S. in 1979 to supplement its squadrons of pre-Vietnam War F-5 aircraft.

In late May 2020, the PN acquired its first missile-capable frigate, the BRP Jose Rizal (FF-150) from the Korean shipbuilder Hyundai Heavy Industries (HHI). The frigate is the PN's first brand new warship with anti-air warfare, anti-surface, anti-submarine, and anti-electronic warfare capabilities.²⁷ A second frigate, the BRP Antonio Luna, was delivered in early 2021. The acquisition of

these two-brand new Korean-made frigates would upgrade the PN's overall naval warfare capabilities and would mark a milestone in the Philippine military's modernization program.

In June 2019, President Duterte agreed to bankroll the second phase of the AFP's 15-year modernization program. This phase provides big-ticket items that the AFP would acquire, with the lion-share of the USD 56 billion modernization fund going to the PN and the PAF. The PN will procure two more missile-capable frigates, amphibious assault vehicles, anti-submarine helicopters, multi-role vessels, and even submarines. In turn, the PAF will acquire two squadrons of multi-role fighters and 12 more FA-50 lead-in fighter planes to complement its current inventory of 12 aircraft acquired during the first phase or horizon of the modernization program. Under the updated Horizon 2 of the AFP modernization program, the Philippine military has identified these key items that had to be acquired from 2018 to 2022: multi-role fighters, helicopters, and long-range patrol aircrafts for the PAF; frigates, corvettes, and submarines for the PN; and multiple launch rocket systems, weaponry, and night fighting equipment for the PA.²⁸

Keeping the Philippine-U.S. Alliance Intact

In late September 2016, President Duterte threatened to separate the Philippines from its only strategic ally, the U.S. He suddenly ordered the termination of Philippine-U.S. naval joint patrols and military exercises after the Obama Administration condemned the alleged extra-judicial killings resulting from his campaign against drug lords and minor pushers.²⁹ He also threatened to review and to abrogate the 2014 EDCA, which provides the U.S. forces access to five Philippine military bases. During his 21 October state visit to Beijing, President Duterte declared his separation from the U.S. and his realignment with China which agreed to resolve the South China Sea dispute through bilateral negotiations.

On 8 November 2016, however, the rectification came with Secretary Delfin Lorenzana's announcement that the Philippine-U.S. security alliance would not be abrogated and that the EDCA would be implemented.³⁰ He said that after a cabinet meeting that President Duterte decided to maintain the Philippine-U.S. alliance and implement the EDCA. The joint military trainings would continue but would be scaled down into small unit exercises that will focus on Special Forces, counter-terrorism and counter-narcotics operations. Meantime,

the annual Balikatan (Shoulder-to-Shoulder) exercises involving thousands of American and Filipino troops would continue but would be transformed from its warfighting scenario into humanitarian, engineering, and civil activities.

In the face of the initial Philippine-China rapprochement, the management of the U.S.-Philippine alliance depended on two key security issues—the South China Sea dispute and the growing ISIS threat in Mindanao. The May 2017 siege of Marawi City provided the AFP the rationale to oppose President Duterte's October 2016 plan to expel American Special Forces from Mindanao. In 2018, there were about between 200 to 300 American troops deployed in the Philippines serving in advisory roles in the AFP's post Marawi City counter-insurgency/counter-terrorism operations.³¹ President Duterte relented to the Philippine military's desire to keep American troops in its camps because they provide intelligence and equipment to its operations against insurgents and terrorist groups in Mindanao.³²

In early 2020, the Philippine-U.S. alliance experienced a major crisis when President Duterte abruptly abrogated the 1999 Philippine-U.S. Visiting Forces Agreement (VFA). During the 7th of February 2020 Senate Foreign Relations Committee hearing, Secretary Locsin warned that the VFA's abrogation would render the 1951 MDT and the 2014 EDCA into just pieces of paper. President Duterte rendered these agreements into nothing more than scraps of paper by sending the notice of termination to the U.S. government on February 12.

China's heavy-handed and aggressive behavior against the AFP forced the Duterte administration to reverse course. On the February 17, a People's Liberation Army Navy (PLAN) corvette targeted its Gun Control Director (GCD) on the PN's anti-submarine frigate the BRP Conrado Yap near Rizal Reef in the South China Sea. This is the first time that a PLAN warship directly threatened a PN ship. In March 2020, a Chinese military transport plane landed on Fiery Cross or Kagitingan Reef on a routine supply mission to consolidate its control of the South China Sea. In early April, China started the operations of two maritime research stations in two artificial islands that are claimed by the Philippines: Fiery Cross or Kagitingan and Subi or Zamora Reefs. On April 18, the State Council of the city of Sansha announced the establishment of two new districts to administer the disputed waters in the South China Sea.

These developments coincided with the change in administration in the U.S. The newly installed Biden Administration immediately reaffirmed its long-

standing alliance with the Philippines. In late January 2021, newly appointed Secretary of State Anthony Blinken called his Philippine-counterpart, Secretary Teodoro Locsin, to convey that a strong Philippine-U.S. alliance is vital to a free and open Indo-Pacific region. He reiterated the 1951 MDT's implications for the security of the two countries, specifically in case of an armed attack against the Philippine armed forces, public vessels, or aircraft in the Pacific -which includes the South China Sea.³³

During the Whitsun Reef stand-off, top Biden national security officials worked closely and effectively with their Filipino counterparts—and in conjunction with an ongoing Philippine-U.S. military exercise—to challenge China's efforts to occupy this Philippine-claimed land feature deep within its EEZ. U.S. National Security Adviser Jake Sullivan called his Filipino counter-part, Secretary Hermogenes Esperon, to emphasize U.S. support and the applicability of the 1951 MDT to the area.³⁴ On April 9, U.S. Secretary of State Antony J. Blinken called Secretary Locsin to express Washington's concern over the massing of Chinese maritime militia vessels in the South China Sea, and more importantly, to reaffirm the applicability of the 1951 MDT in the South China Sea.³⁵ U.S. Department of Defense Secretary Llyod Austin called Secretary Lorenzana to express U.S. support to its ally and informed his Philippine counter-part that the U.S.S. Theodore Roosevelt and its escorts were operating in the South China Sea.³⁶

On 30 July 2021, President Duterte withdrew the termination letter for the VFA after a 75-minute meeting with U.S. Defense Secretary Lloyd Austin during the latter's official visit to the Philippines.³⁷ Secretary Austin thanked President Duterte as he called the Philippines a vital ally. He also declared that the Philippines and U.S. currently face a range of security challenges and a resilient U.S.-Philippine alliance will remain vital to the security, stability and prosperity of the Indo-Pacific.³⁸

Fostering Security Partnerships with Japan and Australia

President Duterte had been very vocal against the Philippine-U.S. alliance. However, he has never criticized or even mentioned the Philippine-Japan security ties or Philippine-Australia security partnership. On the one hand, President Duterte's decision to bolster Philippine-Japan security partnership, and stabilize Philippine-Australia bilateral relations, suggest that, despite his efforts to improve

Philippine-China economic relations, he sees the need to equibalance among the major powers.

On 10 February 2017, the Philippines and Japan held their fifth annual defense dialogue in Tokyo. Significantly, the Philippines brought up the subject of a visiting forces agreement to pave way for the conduct of joint exercises between the two security partners.³⁹ The prospects of a visiting forces agreement between Japan and the Philippines were initially tackled when then President Aquino visited Japan in June 2015. On 28 March 2017, the first two former JMSDF Beechcraft King Air TC-90 reconnaissance planes were formally turned over to the PN. The two leased aircraft augmented the PN's six 40-year-old Britten-Norman Islanders used in maritime patrol, surveillance, and HADR, and rapid assessment missions.

During the siege of Marawi City, Australia dispatched two Royal Australian Air Force (RAAF) AP-3C Orion planes to provide surveillance and reconnaissance support to the AFP's combat operation against the Muslim militants.⁴⁰ It also sent Australian Defense Force (ADF) personnel to advise and assist the Philippine military in counter-terrorism campaign—something that the ADF has been doing in Iraq.⁴¹ In October 2017, the Philippines and Australia signed a security agreement for capacity building and to address the threat of terrorism. Under this agreement, the ADF will send mobile training teams to train the AFP on urban warfare and counter-terrorism.⁴² The agreement also stipulates that the RAN will conduct port visits to the Philippines to engage the PN in a range of cooperative activities to support its capability development.⁴³

Why a Limited Hard Balancing Strategy?

Since 2011, the Philippines has adopted three forms of grand strategy—balancing, appeasement, and limited hard balancing—against China's maritime expansion in the West Philippine Sea. The late President Aquino challenged China's expansive maritime claim in the South China Sea. President Duterte, however, untangled the late President Aquino's agenda of balancing China's expansive claim in the South China Sea. He thought that an appeasement policy on China was worth pursuing because it would make the country a beneficiary of the latter's emergence as a global economic power. President Duterte took into account China's launching of the BRI. He was afraid that if the Philippines continues to pursue a balancing

policy on China, the country would not be able to avail of the economic benefits from the BRI, China's 21st century version of the Marshall Plan.

However, the Duterte Administration was confronted by China's failure to deliver the promised loans and direct investments to finance the Philippine government's Build, Build, Build program, and increasing naval presence and assertiveness near the artificial islands it constructed in the South China Sea. This forced this administration to reluctantly embrace a policy of limited hard balancing. The goal is to develop the Philippines' external defense capabilities on the account of China's maritime expansion, and the dangerous great powers' competition in the Indo-Pacific region. Hence, it found necessary to continue some aspects of the Aquino Administration's balancing policy, such as: a) building up the AFP's territorial defense capabilities; b) maintaining its alliance with the U.S; and c) fostering security partnerships with Japan and Australia.

The current administration's strategy of limited hard balancing towards China stemmed from its realization that a policy of appeasement requires the weaker party (the Philippines) to put its strategic stakes in the hands of a more powerful state (China) which is harboring hostile intention of maritime expansion in the West Philippine Sea and is bent on exploiting the country's military weakness. The adoption of this strategy was also partially triggered by Chinese coercive actions against AFP units deployed in the West Philippine Sea.

In its dealing with the West Philippine Sea dispute, the Duterte administration has separated economic cooperation from its security efforts vis-à-vis China over the territorial spat as it actively promoted bilateral cooperation. In 2020, the Philippines still subscribes to China's preferred goal of managing the disputes—bilateral negotiation, closer economic cooperation and relations, and talks of joint development; at the same time, it made attempts to counter China's aggressive expansionism by building up the AFP's territorial defense capabilities, leveraging on U.S. naval presence in the South China Sea, and growing involvement of other maritime powers such as Japan, and Australia. Early this year, the Philippines even confronted China in a tense maritime stand-off in Whitsun Reef. The Duterte administration's efforts are directed against a specific Chinese policy related with maritime expansion rather than China's emergence as a great power in the Indo-Pacific region.

A policy of limited hard balancing requires accepting that China is a major economic and military power in the region and that the Philippines must

maintain a healthy economic and diplomatic relations with this emergent power. However, the Philippines must seek to mitigate any adverse externalities of this geopolitical reality, i.e., assertiveness, coercive behavior, and territorial expansion, by developing credible military capabilities and harnessing counter-vailing coalitions of other major powers designed to thwart or impede specific Chinese policies. Limited hard balancing involves the Philippines' effective coordination of both military and diplomatic efforts in order to obtain outcomes contrary to China's preference of controlling a large portion of the West Philippine Sea, and the waters of the first-island-chain. Limited hard balancing seeks to constrain China's ability to unilaterally impose its preferences on the Philippines and other littoral states through limited arms build-up and reliance on diplomatic coalition of like-minded states that will defend their common interest of maintain a rules-based international order.

The current administration is deliberating on a grand strategy of "limited hard balancing" to constrain the hegemon's revisionist agenda.⁴⁴ This policy was a result of the defense, military, and foreign affairs establishments questioning President Duterte's appeasement policy; leading to this administration's belated realization that it needs an impromptu strategy aimed at constraining China's revisionist agenda. This, in turn, is generating an impasse within the Duterte administration as it is caught in a bind on whether it will continue its appeasement policy or adopt a policy of limited balancing against China's maritime expansion into the West Philippine Sea in its remaining few months in office.

The current COVID 19 pandemic has also created the need to address non-traditional security challenges like Emerging Infectious Diseases (EID). The COVID-19 pandemic is the first major biological upheaval that has rocked the 21st century global society. Prior to the 20th century, low population densities, infectious diseases, outbreaks of epidemics and pandemics were generally rare and were primarily driven by natural disasters, inter-state wars, revolutions, and other social upheavals. However, because human population has increased exponentially, the spread of numerous EIDS has accelerated because of economic globalization, massive urbanization, revolution in transportation and communication, decline in biodiversity, and climate change.

As a country geographically close to China and possessing one of the most fragile public health care systems in Southeast Asia, the Philippine has vital interests in addressing this non-traditional security challenge. The raging

COVID-19 pandemic is an unmistakable writing on the wall that should not be ignored. The current pandemic is a wake-up call for the Filipinos to prepare themselves against future EIDs that will hit and ravage the country in the 21st century. This will require the Philippines to develop its public health infrastructure and systems as critical strategic and security assets that require public attention, legislations, and funding. This also requires the Philippines to incorporate public health security to its next NSS.

Recommendations

The key challenge for the 17th Philippine president is to transform the current administration's unplanned and makeshift policy of limited hard balancing into a well-thought, comprehensive, and formal grand strategy that will guide the Philippines in the next six years. This requires the incoming administration to implement the following policies during its six-year term:⁴⁵

1. ***Immediate formulation by the National Security Council (NSC) of a new NSS based on the July 12 2016 Arbitral Ruling on the South China Sea Dispute***—The arbitral tribunal declared that China's expansive claims in the South China Sea—defined by the nine-dashline—defy and violate international law. The tribunal concluded that whatever historic rights China had to the resources in the waters of the South China Sea were extinguished when it joined and ratified the UNCLOS. It also noted that, although Chinese navigators and fishermen, as well as those of other states, had historically made use of the islands in the South China Sea, there was no evidence that China had historically exercised exclusive control over the waters or their resources. The tribunal asserted that historical navigation and fishing by Chinese fishermen and navigators in the waters of the South China Sea involved the exercise of high seas freedom, rather than a historic right, and that there was no concrete evidence that China had historically exercised exclusive control over the South China Sea or prevented other states from exploiting its resources. The DFA's July 2020 statement and President Duterte's September 2020 speech to the United Nations General Assembly (UNGA) reiterated the Philippines' commitment to the arbitral award.

Making the award the basis of the NSS will have the following implications:

a) direct Philippine strategic attention and resources to the security of its maritime domain; b) reject the legitimacy of Chinese maritime expansion in the South China Sea; c) securitize China's maritime expansion as the clear and present danger to Philippine national security; and d) require the Philippines to develop the necessary economic, diplomatic, and military instruments that will enable the country to protect its maritime interests and uphold the rules-based international order.

2. ***The Philippine should incorporate Health Security in the National Security Strategy, the National Defense and Military Strategies, and in the National Economic Development and Authority's (NEDA) Five-Year Development Plan***— As a concept, health security focuses on taking preventive measures to protect the nation from current and more importantly future infectious disease, distress of insufficient health care, and inadequate public health infrastructure. Operationalization of health security in terms of policy will require the securitization of EIDS, and examining how the management of infectious diseases could converge with the broader configuration of national security and economic development.

3. ***Build the AFP's territorial defense capabilities with a specific focus on developing its ability to wage asymmetrical warfare in the country's maritime domain***— The Philippines should develop a credible defense capability by focusing its limited resources on building the navy and the air force. Both armed services, supported by the army, should train for a combined asymmetrical warfare against a bigger and more powerful power in the West Philippine Sea. The goals of this arms-build up are: 1) to inflict cost to any major power that will threaten Philippine interests in the West Philippine Sea; and 2) to signal the country's determination and willingness to protect its maritime territory and territorial rights to its ally and security partners.

4. ***Fund Horizon 2 of the AFP modernization program with a clear vision that procurement and prioritization of equipment should follow the country's NSS based on the July 12 2016 Arbitral Award***— A major problem observed in the current implementation of the AFP modernization program is the prioritization of equipment that the armed services are procuring. The AFP is still procuring and prioritizing equipment intended primarily for internal security even though

the result of strategic assessment for 2013-2018 period indicated that the identified core security concerns of the country listed in order of priority are the following: threats to the country's territorial integrity, maritime security, natural disasters, and internal security.⁴⁶ A NSS based on the July 12, 2016 arbitral award will provide a clear guideline on the procurement and prioritization of military equipment in the next six years.

5. ***Increase Philippine defense spending while effecting reforms to reduce the proportion of the budget allocated to personnel expenditures***— One of the major hurdles in the implementation of AFP Modernization Program is the inadequate funding and complicated by the fact, that 85% of the defense budget goes to personnel expenditures leaving little or no amount for capital outlay. The first modernization program began in 1995 has started with the passage of RA 7898. This program began with a budget ceiling of PhP 50 billion for the first five years. However, the Asian financial crisis in 1997 wreaked havoc with the modernization program. This caused the program being only funded from 1997 to 2002 from the AFP's share from the sale of portions of Fort Bonifacio and Villamor Air Base. However, out of the promised PhP 330 billion allotted for RA 7898, only approximately P30 billion was actually given to the AFP in 2010. This amount represented less than 10% of the funds committed to the modernization program.

There are two factors that have adversely affected the allocation of fund for the AFP Modernization Program. One, is the 1987 Philippine Constitution which prohibits the government from allocating more funds to the military than for education. The economic situation of the country is the other factor that would determine the prospect of getting the necessary funding for AFP modernization. The AFP will get bigger budget for its modernization program if the government generates a bigger income. Unfortunately, Philippine defense expenditures has always been low compared to other ASEAN member states.

It is imperative for the Philippine government to allocate at least two percent of its Gross Domestic Product (GDP) for defense spending to effectively fund the AFP modernization program. Unfortunately, this mark has yet to be achieved as the Philippine defense expenditures as a percentage of the GDP ranges only from 0.86% up to 1.31% from 2009 up to 2019. Increasing the country's defense expenditures to two percent of its GDP should be complemented with

a major reform involving the radical reduction of the percentage of personnel expenditures in the overall defense spending from 85% to 50%. This will release the funds for the AFP modernization program.

6. ***Make a conscious and concerted effort to link the NSS to the NDS and the AFP modernization program***— Another important factor that impedes the AFP modernization program is the lack of clear and specific guidelines that will direct its implementation. In the implementation of RA 7898, strategy-based planning was clearly lacking. A strategy-based planning should have identified the priority threats and linked the capability requirements with the acquisition process. The civilian government, however, failed to provide the AFP with the comprehensive and coherent National Security Policy (NSP) and NSS which should be the basis for crafting the National Defense Strategy (NDS). However, the Aquino Administration's first NSP, which came out in 2011, had no corresponding NSS and National Defense Strategy (NDS). The Duterte Administration's NSS avoided mentioning any specific threat to Philippine national security. Consequently, the NDS was drafted without any clear threat to Philippine national security. The NDS should be the basis for the AFP in crafting and implementing its modernization plan. However, the NDS cannot be formulated without clear and present threats to the country's national security that the NSP and NSS should have provided. The next administration should make sure that its NSS-based on the July 12, 2016 arbitral ruling can provide the necessary road-map for the formulation of a NDS and the smooth and rational implementation of the AFP modernization program.

7. ***Initiate the reform process for the transfer of Internal Security functions from the AFP to the Philippine National Police (PNP)***— A major initiative of the Aquino administration was to transfer internal security functions from the AFP to the PNP. The DND's 2013-2018 Defense Guidelines provided for restructuring the AFP to a "lean but fully capable" armed forces to confront the challenges to the country's territorial integrity and maritime security that will be realized through the reduction of infantry and marine battalions and the redirection of limited financial resources to key priorities such as theater mobility, close air-support, air-surveillance, and air-defense. The long-term goal then was to transfer internal security functions from the military to the PNP. However, this goal was side-tracked as the Duterte Administration, in early part of its term, decided to

bring back internal security functions to the AFP along with its long-term goal of shifting to territorial defense. The next administration should initiate efforts to transfer internal security functions away from the military to the PNP.

8. ***Support current legislations aimed at providing the AFP's chairman of the joint-chief-of-staff and its members with a fixed three-year term***— A major problem in the implementation of the AFP modernization program is the revolving door policy where AFP chairmen of the joint-chief-of-staff are required to retire once they reached the mandatory retirement age of 56. This system accounts for the problem of the so called “legacy syndrome,” a situation wherein some top officers of the AFP adhered to the practice to leaving behind a legacy before retirement. This particular condition is exacerbated by the fast turnover of AFP chairmen of the chief-of-staff and its members. Consequently, ranking military leaders are appointed to positions for a limited time only which will be enough for a leader to implement short-term decisions to support the “legacy” culture or stop-gap solutions. The AFP’s legacy syndrome can be remedied by a three-year fixed term, subject to another three-year term if reappointed by the president, for the chairman of the joint-chief-of-staff.

9. ***Strengthening the Philippine-U.S. alliance by implementing the 2014 EDCA and forming with the U.S. a bilateral “4+4” strategic, diplomatic, economic, and public health dialogue mechanism that will advance a comprehensive security partnership between the two allies***— The 2014 EDCA’s primary goal is for the U.S to extend military assistance to the AFP modernization program through the establishment of agreed locations in five Philippine military bases all over the country. It was projected that the two allies’ utilization of these agreed locations would enhance their respective security interests in the face of Chinese expansion in the South China Sea. These interests involved expanding their joint military exercises/training and more significantly, enabling the U.S. to deploy (again after 1992) a credible deterrent force in the Philippines on a rotational basis. To impress upon the U.S. that it is serious in strengthening the alliance, the new administration must push for the full implementation of EDCA by allowing the U.S. to construct the necessary military facilities in five agreed locations all over the Philippines.

The Philippines and the U.S. should form a “4+4” dialogue mechanism to

advance a comprehensive partnership between the two countries and other American allies, while preventing China from creating cleavage between Manila and Washington.⁴⁷ This body would be chaired by Secretaries of Defense, State, Commerce, and Health in a “4+4” format of annual conferences. The body should form committees dedicated for military access and exercises, economic and infrastructure development, trade and investment, and public health and a COVID-19 vaccination program for the Philippines. This body should formulate a whole-of-government plan that first sets a favorable condition to bolster the alliance in particular, and overall bilateral relations in general within the first two years of the next Philippine administration after June 2022.

10. ***Enhance Philippine security partnerships with other American allies such as Japan, the Republic of Korea and Australia***— Since 2010, Japan, South Korea, and Australia have been donating or selling war materiel to the Philippines. Japan has provided the Philippine Coast Guard (PCG) 12 multi-purpose patrol vessels, and five long-range reconnaissance aircraft to the PN. The Republic of Korea has sold the PAF 12 FA-50 lead-in fighter jets and the PN two guided-missile frigates. The ROK has also donated an anti-submarine frigate to the PN. Australia has sold and donated to the PN four strategic sea-lift vessels. The Philippines can request the U.S. to organize its allies into a consortium that will program and systematize their military assistance to the AFP.

11. ***Leverage on existing and newly formed multilateral arrangements that are committed in defending the rules-based international system***— Since the Mischief Reef Crisis in 1995, the Philippines has harnessed the Association of Southeast Asian Nations (ASEAN) as multilateral institution that can constrain China’s coercive behavior and expansion in the West Philippine Sea. However, the inability of China and the ASEAN to agree on a binding Code of Conduct (COC) for the parties of the South China Sea dispute, and the regional organization’s inability to come out with a comprehensive and coherent Indo-Pacific strategy have exposed the limitation of this regional organization. The Philippines must leverage on existing and new multilateral organizations such as the European Union, the East Asian Summit (EAS), Quadrilateral Security Dialogue (QUAD) and the Australia, United States, and United Kingdom Security Partnership or AUKUS to uphold the rules-based international order.

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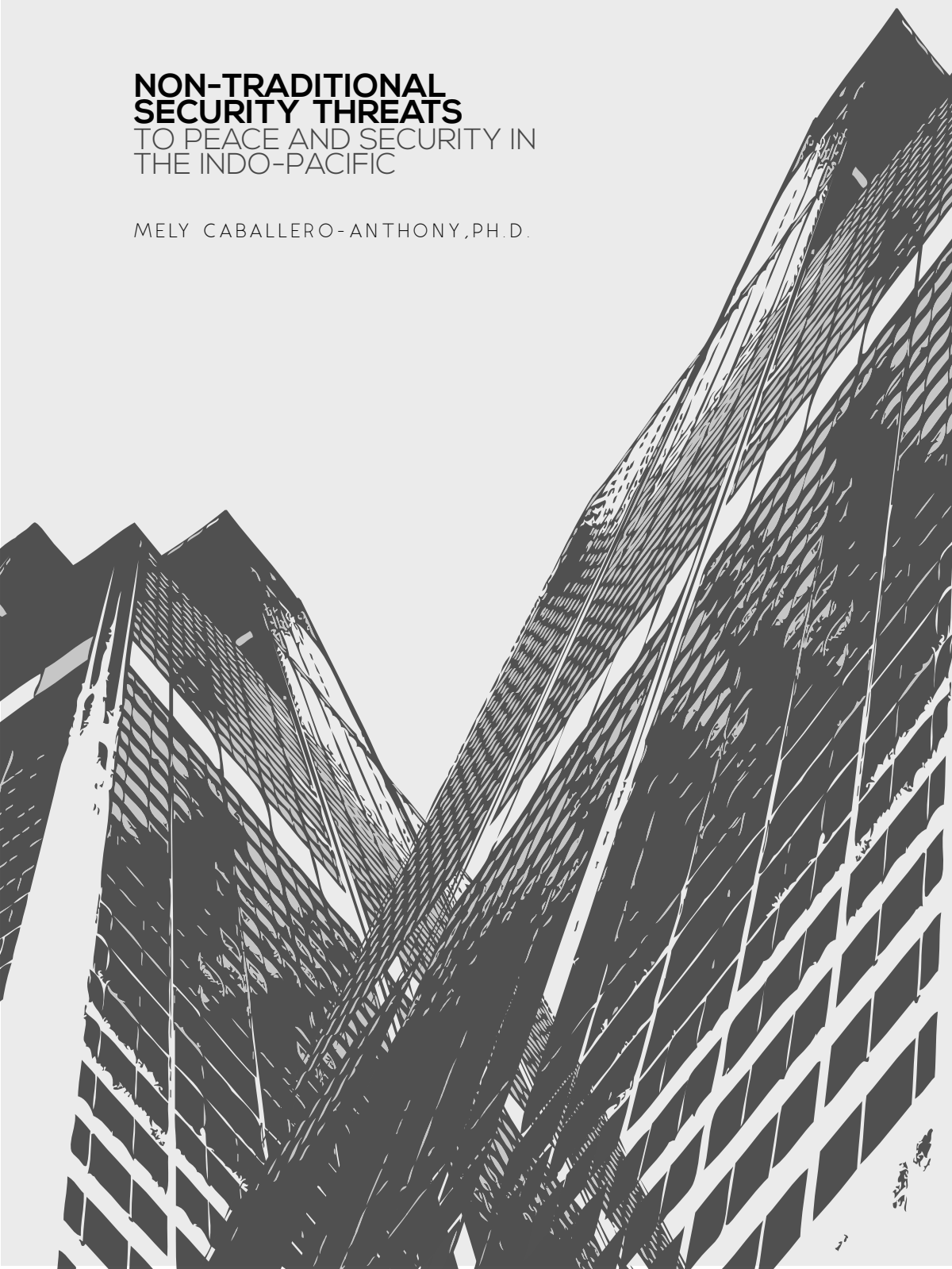
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**NON-TRADITIONAL
SECURITY THREATS**
TO PEACE AND SECURITY IN
THE INDO-PACIFIC

MELY CABALLERO-ANTHONY, PH.D.



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To say that we live in interesting times is an understatement! Some security analysts would, in fact, go further to argue that we are living in dangerous times. These sentiments have become more pronounced here in Asia as rivalry and competition between major powers have become more acute, raising concerns about the future of international and regional order. These concerns have been expressed by no less than the political leaders in the Indo-Pacific as they weigh on the state of regional security. Singapore's Prime Minister Lee Hsien Loong, for instance, wrote about 'The Endangered Asian Century' in an article published in the July/Aug 2020 issue of *Foreign Affairs*, expressing worries about the growing US-China confrontation and the implications for Asia's future.¹ Echoing similar concern is former Australian Prime Minister (and also former Foreign Minister) Kevin Rudd in his two *Foreign Affairs* articles published in July and August 2020, that drew attention to the prospect of an armed conflict between the US and China and a new Cold War 1.5.²

While major power competition causes perturbations to regional and global security, this is not the only thing that matters. Today, the world is facing two existential threats to humanity – climate change and the COVID-19 pandemic. The latter has already been called the 'crisis of a generation' as most countries across the globe continue to grapple with containing the spread of the disease, deal with its unfolding multi-faceted consequences and struggle to lift their economies from the devastating impact of the pandemic and plan for recovery.

Climate change and pandemics are but some of the grim reminders of the kinds of security challenges we now face in the 21st century. To be sure, the rapid changes in the global environment have significantly altered the nature of threats and risks defining the security landscape. These changes compel states to seriously assess their security agendas, revisit approaches and rethink the policies crafted to address these challenges. These are key considerations if the goal is to be prepared for sudden disruptions and keep both states and societies safe and secure.

To be sure, in the last two decades, the kinds of threats to state and human security have expanded. Beyond conventional security threats like territorial disputes, armed conflicts, nuclear non-proliferation, arms race, and the likes are also the so-called non-traditional security challenges like climate change whose impact is equally the same, if not more severe, than the those from conventional ones. These issues have shown transborder impacts and wider scope, as well as compound extant human security threats that have increased the urgency of dealing with these issues.

Understanding Non-Traditional Security Challenges

A common trend that has been observed by a number of security scholars in Asia is the growing tendency to highlight and designate any security concern that is non-military in nature as non-traditional security or NTS.³ The appropriation of the security label attached to certain risks/threats is indeed significant in that the act of ‘security-framing’ or ‘securitising’ issues is deemed to be an effective way of bringing attention to these NTS challenges, conveying urgency and commanding governmental resources to address them.

More significantly, non-traditional security challenges reinforced the need to seriously re-think approaches to security governance at multiple levels- from the national, regional, and international arenas. It also underscores the criticality of taking no less than a multilateral approach to collectively address these transboundary challenges. The rationale being that unless the impacts of these transnational challenges are addressed and mitigated collectively, these issues can escalate into threats to global peace and security.

Conceptually, non-traditional security (NTS) is a concept used to refer to issues or challenges that threaten the survival and well-being of peoples and

states, arising primarily from non-military sources. The issues include, but not limited to, climate change, environment degradation and resource scarcity, infectious diseases, natural disasters, irregular migration, food shortages, people smuggling or trafficking and transnational crime like cybersecurity. Any one of these NTS threats, like climate change, brings about cross-cutting consequences such as food scarcity and water stresses, and have transborder implications like population displacement and forced migration.

Aside from these issues being non-military in nature, NTS issues share common characteristics, namely:

- Threats do not stem from competition between states or shifts in the balance of power.
- Threats are often caused by human-induced disturbances to fragile balance of nature with dire consequences to both states and societies.
- Threats are not only man-made but also triggered by a rapidly changing global climate and by advances in technology (e.g., cybersecurity).
- The kinds of threats are transnational in nature, in terms of their origins and effects.
- The impacts/consequences are difficult to reverse or repair (e.g., desertification, drought, loss of habitat).
- The impacts/consequences are severe and affects large swathes of communities.
- The object of security is no longer just the state (state sovereignty or territorial integrity), but also its peoples' survival, well-being, dignity both at individual and societal levels.⁴

Given the catastrophic impact of an NTS threat like pandemics, the distinction between what is high or low politics is now blurred. This is particularly relevant to many developing states whose capacity to deal with transborder threats are seriously challenged. As such, national solutions are no longer sufficient in addressing NTS threats and dealing with its consequences would often require comprehensive approaches beyond the political-security responses to include socio-economic approaches, as well as humanitarian use of military force.⁵

Against this background, this paper looks at the kinds of non-traditional security issues endangering human security and their implications on societies

and states in the Indo-Pacific region, particularly Southeast Asia. By focusing on the security impact of selected NTS challenges like climate change, pandemics and food security, the paper argues that the international community writ large has the responsibility to deal urgently with these issues. At the national level, the governance of the NTS issues involve a whole-of-government approach, one that is multi-sectoral and multi-agency, and inclusive where as many stakeholders as possible are involved particularly civil society organisations. The paper further argues that given the transborder impact of NTS threats, more can certainly be done to deal with these issues at the regional and global levels. But to do so, in a responsive and effective manner, requires confronting difficult challenges such as generating resources, working around the norms of non-interference and sovereignty and recognizing the reality that 'one is never secure unless everyone is secure'.

The following sections highlight some of the major NTS challenges in the Indo-Pacific and discuss their implications on the national security and foreign policy agendas of states in the region, including the Philippines.

Climate Change and Security

Much has been written about climate change and its impact on people's security. Several scientific reports and analyses that have been published found that climate change is a threat multiplier given the cross-cutting impacts that a change in the global temperature above 1.5 degrees centigrade brings. A most visible consequence of climate change like extreme weather events, for example, generate multiple consequences from more frequent natural disasters, drought and floods, significant damages to properties and livelihood, and loss of lives. The multiplicity of risks associated with climate change like resources scarcity including food and water are also well-established drivers of conflict. These can in turn compound existing fragilities that could destabilise already vulnerable regions, including Southeast Asia.

Despite a plethora of robust scientific studies, global summits, conferences, and workshops on climate change, one observes that the narratives on this issue are often lost in technical details. There remains the need to 'downscale' existing scientific findings to apply and translate them to regional and national contexts. In Southeast Asia, climate change is now receiving a lot of attention not least

because of the region’s vulnerability to the risks of the changing climate that include increased frequency of unprecedented heat extremes and heavy rainfall events leading to intensified flooding and other natural hazards.⁶ As is already well known, Southeast Asia is one of the most disaster-prone regions in the world. This is well illustrated in Figure 1 below.

Figure 1 . State of Disasters in Southeast Asia



Source: AHA Centre Disaster Information Network

Based on the information from the ASEAN Coordinating Centre for Humanitarian Assistance, since 2012, there have been at least 2260 disaster events which have taken place in the region, including notable large-scale disasters such as the Sulawesi Earthquake and Tsunami (2018), Typhoon Haiyan (2013) and Typhoon Damrey (2017).⁷ In 2020 alone, 530 natural hazards were reported in the region – from earthquakes to cyclones and to floods – a significant increase from past year’s reported 188 disasters. This has resulted in over 24 million people affected, including 3.37 million people displaced – all significant increases from previous years.⁸

There are, of course, the human stories behind these numbers that are often lost in the narratives. Between 2000 and 2016, approximately 362,000 lives had been lost because of natural disasters. The economic loss had also been staggering. For example, Thailand’s floods in 2011 that lasted for a few months were the worst that the country has had in fifty years prior and caused more than USD 45 billion in economic loss and damages.⁹ The flood crisis inundated large parts of human settlements, farms, infrastructures, and many other areas, affecting 12.8 million people,¹⁰ and displacing more than 165,000.¹¹ Some 9,859 factories were affected, and 600,000 jobs were lost triggering fear of further economic hardship for

individuals and families. Moreover, considering Thailand's role as the world's top rice exporter, the flooding that affected 16,558.55 km² of agricultural area created acute concerns over rice shortage and food security.

In the Philippines, Typhoon Haiyan in 2013 was considered the fastest moving and strongest typhoon ever measured since 1945 whose recurrence is estimated to be within 200 years.¹² The sheer scale of the disaster saw more than 7,000 deaths, more than 4 million people displaced, 1.1 million homes destroyed, 14 million people affected, and 6 million people lost their sources of income.¹³ Typhoon Haiyan in 2013 inflicted USD 10 billion in loss and damage to the Philippine economy.¹⁴ Health concerns included treating the injured, attending to pregnant and nursing women and newborn children, breaking out of diseases such as measles, polio, dengue, and typhoid, treating non-communicable diseases such as heart attacks and diabetes, as well as trauma and other mental health problems.¹⁵

It is not just the significant increase in disaster numbers that is alarming. Compounded by an ever-changing climate and environmental degradation, not only are disasters in the region increasing in frequency and intensity, but they are also deviating from their usual patterns – affecting areas with little historical precedent (floods, cyclones).¹⁶ This in turn, makes it harder for policymakers and other stakeholders to respond with adequate disaster management strategies. Climate change has thus, become more than a serious concern for ASEAN.

Preparedness, Mitigation and Adaptation

ASEAN countries have been using global frameworks such as the Sendai Framework for Disaster Risk Reduction, the 2030 Agenda for Sustainable Development, the Paris Climate Agreement, Addis Ababa Action Agenda and the New Urban Agenda to deal with the complex consequences of climate change.¹⁷ In efforts to promote regional cooperation in disaster preparedness and response, ASEAN adopted the ASEAN Agreement on Disaster Management and Emergency Response (AADMER) which came into force in 2009. AADMER is a legally binding agreement that allows ASEAN to establish several regional mechanisms to help its member states cope with the devastating impact of natural disasters and provide critical assistance in disaster response and assistance. These mechanisms include the establishment of the ASEAN Coordinating Centre for Humanitarian Assistance and Disaster Management

(AHA Centre) which was launched in 2011 as the operational and technical body of AADMER.

The AHA Centre essentially facilitates the cooperation and coordination among ASEAN members of states, with the United Nations, other international organisations, and dialogue partners of ASEAN for disaster assistance and emergency response in the region. The AHA Centre also works closely with the national disaster offices of every ASEAN state. In times of disasters, the AHA Centre deploys the ASEAN Emergency Response and Assessment Team (ASEAN-ERAT) and coordinates the deployment of relief items to disaster -affected areas in the region. To further enhance regional capacity to monitor and predict such natural hazards, the AHA Centre uses technology as seen in its use of the AHA Centre's ADInet.¹⁸

ASEAN countries also conduct disaster simulation exercises to test, practice, review and assess ASEAN's emergency response. These exercises are the ASEAN Regional Disaster Emergency Response Simulation Exercise (ARDEX) and the ASEAN Regional Forum (ARF) Disaster Relief Exercises (ARF DiRex). To test the interoperability of disaster relief forces, the ARDEX, in particular, helps improve the Standard Operating Procedure for Regional Standby Arrangements and Coordination of Joint Disaster Relief and Emergency Response Operations (SASOP). The ARF DiRex, on the other hand, is a large-scale disaster scale exercise bringing all 27 participating members and involving multiple partners and stakeholders. Both exercises, which are held every two years, also serve to promote capacity building through exchanges of skills and expertise in the field of disaster relief.

Adaptation and the Code Red for Humanity

The regional measures cited above are certainly not enough. Beyond cooperation in disaster preparedness and response is the challenge for countries to improve their adaptive capacity to respond to the different impacts of climate change. This is becoming more critical given the rapid climatic changes noted by scientists. Most recently, the International Panel on Climate Change (IPCC) published its latest Sixth Assessment Report (AR6) in August 2021. Dubbed “code red for humanity,” the report affirms the role of human activities in inducing global warming and confirms that climate change is already happening in every region in the world.¹⁹

While countries continue to make efforts to transition to renewable energy sources, the current speed and scale of decarbonization seem to indicate that the world may have to prepare for warming temperature that goes beyond 1.5 degrees by the end of the century. In this regard, climate adaptation becomes even more urgent. However, adaptation capacity is still low in developing countries, which partly explains why they are especially affected by the impacts of climate change.²⁰ In the ASEAN region, Myanmar, the Philippines, and Thailand are among the world's top ten most at risk in the last two decades.²¹ Other Southeast Asian countries such as Vietnam, Cambodia, Lao PDR, and Indonesia are ranked 13th, 14th, 52nd, and 72nd in the same period respectively.²² Thus, strengthening adaptation measures and building resilience are key to averting climate-induced catastrophic disasters turning into communal conflicts or other security concerns.²³ It follows that mainstreaming climate and security issues into the security planning of states should already be done and advanced. This means that climate change needs to already be part of 'normal language' in the security planning of states, integrated in risk assessments and risk management strategies.

As one of the more vulnerable countries in Southeast Asia, the Philippines needs to put climate change in the top three priorities in its national security agenda. As a known driver of conflicts, the government must be extremely sensitive to the risks that climate change brings to conflict settings in the country where peace is fragile. Moreover, given the impact of climate change on the country's water resources, agriculture and coastal and marine resources, the Philippines cannot afford to be complacent nor reactive to climate change. More significantly also, the impact of climate change on the agriculture sector which provides food and contributes to a third of the country's total employment should be part of its policy agenda.²⁴ (Food security is discussed separately below).

Pandemics and Human Security

An overlooked or perhaps underestimated NTS threat to national and human security is infectious diseases. The outbreak of COVID-19 pandemic has caught the global community by surprise. Described as an extraordinary, once-in-a-century pandemic, COVID-19 continues to rage in most parts of the world and has already caused untold human sufferings to millions of people globally.

By mid-October 2021, there were already over 238 million confirmed cases and 4.8 million deaths globally.²⁵ Since its outbreak in 2020, the pandemic has upended people's lives, cost millions of jobs, severely restricted people's mobility and resulted in an economic downturn not seen since the global recession in the 1930s. This long-drawn-out pandemic has exacted a huge toll on the health and well-being of communities, caused instability within states and triggered tensions between states, particularly the United States and China.

Like climate change, the COVID-19 pandemic has been a threat multiplier. As countries introduced a string of strict public health measures to contain the spread of the disease, from mandatory mask wearing to social distancing, lockdowns and closing of borders to stop the movements of people, the health crisis rapidly became an economic crisis of global proportions. Reports from the World Bank and the Asian Development Bank projected a global economic contraction of up to 8-10%, resulting in the worst downturn since the Great Depression of the 1930s. The severe consequences of the sudden economic downturn included job losses of over 80 million in the Asia-Pacific alone, a figure that does not include the millions more lost in the informal economy.²⁶ Global poverty rose significantly with 150 million more people falling into extreme poverty. The economic-induced crisis also impacted food security, adding 100 million more undernourished people globally compounding the dire situation of the other 135 million people already facing acute hunger prior to the outbreak of the Covid-19 pandemic.²⁷

As most parts of the world continue to grapple with the huge task of ending the pandemic, the message could not be clearer: health security is fundamental to international peace and security. For a region that is no stranger to pandemic outbreaks, COVID-19 and its severe consequences, serve as a grim reminder of the fragility of peace and security in Asia. Like the rest of the world, Southeast Asian economies were not spared from the ravages of COVID-19. Most economies suffered economic contraction averaging between four to 7%.²⁸ The region's lived experience with COVID-19 raises questions about regional security in view of its lingering effects and concerns about the possibility of more pandemic outbreaks in the future.

To be sure, the failure to contain COVID-19 early before it could spread across the globe, was viewed as a serious challenge to global health governance. The health crisis is seen as a failure of global leadership as major powers turned

inwards, adopted protectionist policies and stoked nationalistic sentiments. It was an indictment of the inability of global institutions, particularly the World Health Organisation (WHO), to immediately respond to a rapidly escalating public health emergency of international concern (PHEIC) that has led to severe consequences. Further, international institutions like the United Nations were viewed to be no longer fit-for-purpose given the growing challenges to global peace and security. Among these is the inability of global institutions to stop the trends of vaccine nationalism which has exacerbated inequality, putting the less developed states at a serious disadvantage in getting access to the much-needed COVID-19 vaccine for their people.²⁹

The failures in global leadership bring attention to the importance of regional cooperation. ASEAN cooperation in addressing COVID-19 can be seen in efforts towards closer information exchange, and several inked agreements to: build an ASEAN stockpile of essential medical supplies and equipment, set up an ASEAN Recovery Fund to assist member states severely affected by the pandemic, and to commit to ensure the smooth flow of essential goods by refraining from imposing unnecessary non-tariff measures (NTMs) during the pandemic and strengthen supply chain connectivity and resilience, including making trade facilitation more effective. Under the ASEAN Comprehensive Recovery Framework adopted in November 2020, member states also agreed to set up a bilateral travel bubble or corridors to help revive transport and tourism sectors which were adversely affected by the pandemic, and to provide greater support to small and medium enterprises.

Addressing Impediments to Regional Health Security: ASEAN's Weakest Links

It has been more than a year since COVID-19 spread across the globe and while some ASEAN states appear to be managing the pandemic despite recent surges caused by new variants of COVID-19 virus, the progress in the region remains uneven. There are a number of factors that explain why some ASEAN countries are managing better while others continue to struggle. Top of the list are the lack of access to COVID-19 vaccines and the emergence of new variants that are reportedly more transmissible. But there are significant governance factors as well. Among these were strong national leadership, speedy and decisive response, more centralised and/or better coordination at all levels from the national to the

local levels and having a multi-agency task force that acts as the main focal point for an integrated response.

There are also intangible factors that have been critical to pandemic control. One of these is the trust that citizens have in their government which helped significantly in public compliance with strict public health measures. Much of this trust came from the competence demonstrated by relevant government agencies as reflected in the decisiveness and consistency in the implementation of policies of COVID-19. The other is good governance. One saw how a militarised approach to the pandemic resulted in ineffective responses despite initial progress. More importantly, the appointment and reliance on retired military personnel to head the national COVID-19 task force were seen as undermining the country's political institutions.

Another critical element is the capacity of national public health systems. What this long-drawn COVID-19 pandemic has revealed is the uneven capacity of public health systems among ASEAN countries. It has long been recognised that strong and resilient health systems are essential, not only in effectively addressing severe pandemics but also as defence against other communicable and non-communicable diseases. Moreover, with the impact of climate change on the burden of diseases, strong health systems become even more important to build resilience – of the economy, food systems, and related areas.

Being able to measure the performance of national health systems would be a good starting point. The 2005 International Health Regulations (IHR) has specified 13 core competencies. In the 2017 World Health Statistics Report, ASEAN members generally reported optimistic measures of their average IHR core competency between 2010-2016, as follows: Malaysia (100), Indonesia and Singapore, Vietnam (99), Thailand (98), Brunei Darussalam (92), Philippines (87), Myanmar (84) Lao DPR (75) and Cambodia (55) (WHO Health Statistics Dashboard, 2017). The high scores, however, belie the fact that many health systems in several countries in the region are still struggling with healthcare delivery, providing access and affordability, especially for the poorer and more vulnerable groups.

As ASEAN countries continue to fight the long-drawn COVID-19 pandemic, the weaknesses in their healthcare systems are now exposed and are significantly affecting their abilities to cope with the debilitating effects of the pandemic. Thus, while ASEAN has played an important role in building regional capacity for

health security, there are clearly limitations to what it can do. ASEAN's health system is only as good as the health systems of its member states.

Addressing Multiple Challenges to Food Security

Like many developing countries in Asia, the agriculture sector in the Philippines is an important yet often overlooked sector. According to the country's 12-year National Framework Strategy for Climate Change (2010-2022), the agriculture sector not only provides food through production of rice and other cereals, but also contributes to a third of total employment.³¹ There is no doubt that climate change has significantly affected food security and livelihoods in the country.

At the height of the food crisis in 2008, then former World Bank President Robert Zoellick referred to the crisis as the 'silent tsunami.' This statement reflected what he saw then as the worrying state of food insecurity globally. This includes the situation in the Philippines described below.

Undernourishment

Cereals and cereal products take up 39% of household consumption, followed by vegetables (15%) and fish (11%), according to data from the Food and Nutrition Research Institute of the Department of Science and Technology.³² Yet, the average diet is lacking and short of meeting the recommended daily consumption requirements across macro- and micro-nutrients; only 24.2% of the total population in 2018 was found to meet 100% of the recommended daily calory requirements, and this is in fact lower than the figure in 2015, of 31%. Moreover, the share of the population meeting the recommended dietary intake for Vitamin C has shrunk from 32.5% in 2015, to 16.4% in 2018. In fact, the UN Food and Agriculture Organisation's State of Food Insecurity and Nutrition (SOFI) in the World report showed that the Philippines had the highest numbers of undernourished, with over 59 million Filipinos facing moderate to severe food insecurity.³³

These outcomes can be attributed to multiple factors. A key factor is the accessibility of food, which is shaped by food prices. Inflation of the price of rice increased in succeeding months from 0% per annum in July 2016, to more

than 10% per annum between July 2018 and October 2018.³⁴ This peaked at a high of PhP 22.04 in September 2018 which prompted the country to eventually undertake the Rice Tariffication Law in 2019, which was passed in February 2019. This removed the quantitative barriers on rice imports, and effectively reversed the rice price inflation, reaching close to negative 10% inflation by October 2019, based on the analysis by Action for Economic Reform (AER) that was reported by The Asia Foundation.³⁵

The complexity of rice prices, however, is that after the RTL was implemented, farmers started to complain about the negative impacts of falling rice prices on their own economic security. After the implication of the law, average rice paddy prices “plummeted” from PhP 18.38 per kilogram in the previous year (March 2017-February 2018), to a lower level of PhP 15.79 per kilogram in the year after it was implemented (March 2019-February 2020). It is estimated that farmers lost as much as PhP 80 billion in 2019 as a result of falling rice prices.³⁶

Beyond the RTL, Philippine farmers have faced challenges from other fronts too, including floods, droughts, pests and diseases, which are related to climate change. In the study of Israel and Briones (2013) found that from 2000 to 2010, the country had 171 typhoons, leading to flooding instances. It was also significantly impacted by droughts in 2007 and 2010; altogether, the damage from typhoons, floods and droughts has been estimated at USD 1.2 billion. Damage to agricultural facilities and irrigation infrastructure has further been valued at USD 102 million and USD 203 million, respectively. In total, the cost of the damage amounted to 4% of its total production from 1995-2010, and 5.9% of its total corn production.³⁷

The direct impacts of these on household undernourishment can be seen in the responses of farming households impacted by typhoons Ondoy and Pepeng in 2009. The findings of Israel and Briones showed that the general coping mechanism by 79% of the households was “eating less of preferred foods” and that more than one-third (39%) of those surveyed resorted to reducing meal portions. Worse yet, 34% of the households reported reducing the number of meals for adults, and in the extremes, 12% of households surveyed even reported reducing the number of meals by children, and 15% reported skipping meals in the household for the whole day.

Moving forward, these stress the importance of the “provision of defensive investments and rehabilitation expenditures to cope with these natural

disasters.”³⁸ The onus today, is on how the rice tariffs collected from the Rice Tariffication Law, estimated at PhP 10 billion per annum can translate into farmer support programs through seeds, farm machineries, credit and technical extension.³⁹

Marine Sustainability

A related but equally important agenda to address food security is the sustainability of the marine environment. This is particularly relevant to the maritime countries in Southeast Asia, like the Philippines. In the 2020 East Asia Leaders Statement on Marine Sustainability, a number of priority areas were identified to ensure the long-term conservation and sustainable use of fish stocks. Among these are taking cooperative activities, including taking action against cases of Illegal, Unreported and Unregulated (IUU) fishing and illegal activities, as well as concerted efforts to protect and conserve the marine and coastal environment, including marine biodiversity, ecosystems and resources, as well as protecting people.⁴⁰

In finding a suitable path to food security, the Philippines’ efforts at having and maintaining a good integrated coastal management (ICM) is of vital importance to the country’s long-term social and economic development. Similarly current efforts to develop an Integrated River Basin Development and Management Framework to protect the country’s river basin from pollution and ensure the supply of clean and safe water must be strengthened.

Given that river basins are connected in maritime Southeast Asia, the ability of the Philippines to forge closer cooperation with neighbouring countries should also be further strengthened. Over the years, the Philippines has established and managed Marine Protected Areas (MPA), which are important in preventing the degradation of coastal habitats and the decline in fisheries. Complementing these efforts are several national programmes like “Philippines’ National Plan of Action (NPOA) for the Prevention, Reduction and Management of Marine Litter (NPOA-ML) and the “Clean Seas Pilipinas” – a United Nations Development Programme in the Philippines under its Turn the Tide Against Plastics campaign which aims to address plastic pollution that has become one of the most serious threats to the health of oceans and a major hazard to marine biodiversity.⁴¹ These efforts certainly cannot be done solely by the government and its relevant agencies. Addressing marine pollution requires

Food Security Challenges in Vietnam

An interesting case in food security is that of Vietnam, which is today among the world's largest rice exporters, but which is only seeing average levels of food security (measured by household undernourishment), as noted by its Prime Minister Nguyen Xuan Phuc. This breaks the fallacy that food security is only supply-based, since rice makes up 65% of the average diet in the country, and having significant surpluses of rice would have been expected to lead to below-average undernourishment levels.

An important factor that shapes food insecurity, is poverty or economic insecurity in urban contexts. In fact, a study of one of the economically "disadvantaged" districts in Ho Chi Minh City, Vietnam, showed that 34.4% of the households were food insecure, and that lower income levels led to higher levels of food insecurity. (Vuong, Gallegos and Ramsey, 2015).

Governance plays a critical role in shaping the food insecurity outcomes. The previous successes of the government in increasing food supplies are attributable to President Ho Chi Minh's 1945 law on "Launching agricultural production for the entire population" led to the transfer of land rights from "rulers" to farmers, and after this, the 1988 Land Law allowed farmers greater flexibility in their land use. Within a normal market system, however, the availability of higher-value uses of land has led to the conversion of 500,000 hectares of agricultural land to non-agricultural uses from 2000 to 2008, representing 5% of Vietnam's agricultural area (Gorman, 2018: 241). This has led the government to intervene in land use decisions, in ensuring sufficient land used for rice planting purposes in each sub-national region (Hoang, 2017).

Similar to the Philippines, Vietnam also faces important challenges on the front of climate change. The region suffers from the impacts of flooding and droughts. Within its Mekong Delta and Red River Delta, it has been found that close to half (47%) of rice paddy areas are vulnerable to flooding, with potential implications on the 67% of its population (Van Dijk et al., 2012). This is aggravated when combined with the impacts of sea-level rise that is commonly associated with greenhouse gas emissions, where Vietnam has been identified among the countries which were especially impacted (Dasgupta et al., 2009).

Climate impacts on Vietnam raise the need for adaptive investment in improved agricultural infrastructure. This led Vietnam to implement an action plan that focuses on climate-adaptive agricultural development in 2016-2020, "with a vision towards 2050 aims to sustain the food production under climate change context" (Anh and Nghiep, 2020: 1). Prompted in part by the global food crisis in 2007, Vietnam implemented Government Resolution No. 63/NQ-CP, which sought to regulate the national food industry (Anh and Nghiep, 2020). A further government decree was issued in 2010 (Decree No. 61/2010/ ND-CP) to incentivise private agricultural investment.

A further challenge that remains today is in value-chain competitiveness and in food safety. One of the imperatives proposed by the World Bank (2016) was to produce "more from less". This is based on potential benefits from mechanisation, which necessitates greater concentration in farm land ownership and in turn greater crop land sizes. The problem is, as Anh and Nghiep (2020:1) critiqued, that only 13% of the households had more than 2 hectares of land. On the challenge of food safety, chemical use has likewise been cited as a challenge, which has resulted from greater agricultural intensification to increase rice paddy yields. Thus, a further avenue for future government policy lies in strengthening capacities on the part of both the public and private sector, in ensuring safer food management practices. (Anh and Nghiep, 2020: 1).

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Fighting Marine Pollution in Indonesia

Indonesia has been taking steps to reduce marine pollution, including the recent publication of the National Plastic Action Partnership Action Plan. The plan outlines a set of actions to reduce marine pollution by 70% by 2025 and to achieve near zero plastic pollution by 2040. Improving waste management is given high priority, while efforts towards reducing waste generation and enhancing recycling are going to be tackled in stages. The Plan envisages five systemic interventions, including reducing plastic usage, redesigning plastic products and packaging with reuse and recycling in mind, doubling plastic waste collection to 80% by 2025 (currently 15%), and building or expanding safe waste management facilities capable of managing an additional 3.3 million tonnes of plastic waste per year. Through Law 18/2008 on Waste Management the government attempted to reduce the amount of waste entering landfills by favouring recycling. One of the programmes launched for the purpose of advancing the reduce, re-use, recycle concept (3R) was the creation of solid waste banks through which people can dispose of their waste in exchange for money.

Sources:

Sustainable Ocean Economy Country Diagnostics of Indonesia, [https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DGD\(2021\)5&docLanguage=En](https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DGD(2021)5&docLanguage=En)

the involvement and participation of the business sector and other stakeholders in protecting the marine environment.

Last, but certainly not least, is the need to strengthen efforts at combatting illegal, unregulated and unreported (IUU) fishing. Most recently, the Department of Agriculture-Bureau of Fisheries and Aquatic Resources (DA-BFAR) and the Philippine National Police-Maritime Group (PNP-MG) signed a memorandum of understanding (MOU) on Oct 1, 2021.⁴² The MOU aims to intensify the efforts of these two government agencies to, among others, enforce fishery laws that prevent, deter, and eliminate illegal fishing activities and to protect the marine environment of the area from overexploitation. In this regard, the experience in Indonesia is instructive. The country invested in intelligence against IUU. In July 2021, Indonesia set up the Indonesia Maritime Information Centre (IMIC), a multi-agency data-sharing centre to help its coastguard protect its maritime interests which have been challenged by a number of IUU incidents. Indonesian authorities have seized Vietnamese and Filipino vessels that have illegally fished in Indonesian waters, even as authorities have intensified diplomatic efforts to work with its neighbours. The fight against IUU fishing depends upon effective data sharing within and between states. IMIC therefore is an important initiative to enhance cooperation among the neighbouring countries in the Indo-Pacific.⁴³

The MOU between DA-BFAR and PNG-MG is therefore an important initiative in working collaboratively to protect the marine environment and help ensure food

security. But with many other initiatives of this nature, effective implementation and enforcement are critical if these cross-cutting goals of achieving food security and protection of the marine environment were to succeed.

Summary and Conclusion

Over the years, we have seen a growing number of NTS challenges that gravely impact on the well-being and security of states and societies. The list is long and certainly not exhaustive. From climate change to pandemics, environmental degradation, and food security—these threats have proven to challenge human security. Any one of these NTS threats, like climate change, brings about cross-cutting consequences such as food scarcity and water stresses and have transborder implications. As such, national solutions are no longer sufficient to respond to these NTS threats. The heavy burden on state capacity and resources necessitates the participation of a range of non-state actors to assist states in providing security particularly to vulnerable communities.

NTS has now become part of the security lexicon of the region. NTS issues are getting included in the security agendas and policy priorities of many states. Given the complexity of NTS issues, their impacts are recognized as not only threats to people's security but also to national sovereignty and territorial integrity. It is therefore imperative for policymakers to seriously re-think—if they have not done yet—their political and strategic approaches and find new and innovative ways to address these emerging challenges beyond the narrow state and military-centric approaches. These would have profound implications on regional and global governance.

In dealing with complex NTS issues like climate change and its cross-cutting consequences, the policy choices and approaches of states cannot be siloed. These kinds of issues need a whole-of-government approach to allow for more comprehensive ways to deal with multiple consequences—from food crisis caused by extreme weather events, diseases, forced migration, conflicts and instability. Policy responses therefore cannot be reactive.

Dealing with NTS threats further underscores the importance of multilateral cooperation. The transborder nature of these challenges compels states to work closer together to mitigate their impact on human security. And given

the urgency of finding workable solutions to 21st century problems like climate change and new pandemics, it behooves states and communities to improve security governance, including confronting head-on certain norms that hinder the ability of the international community to respond effectively to NTS problems.

Recommendations:

NTS challenges like climate change and pandemics have underscored the need for states and societies to be better prepared for a much more complex and uncertain future. In this regard, governments and other stakeholders may wish to consider the following recommendations.

1. In dealing with the complex issue of climate change, governments should set out key policy priorities to address its multifaceted consequences. More efforts must be given to strengthen adaptive capacity in dealing with its direct impact through enhanced disaster preparedness and response mechanisms and relevant frameworks. Establishing a specialised climate security agency and/or advisor should be considered to develop targeted strategies, create synergies among relevant agencies, and engage with international funding agencies.

2. Comprehensive risk assessment and management strategy must be done regularly to inform national policies to deal with major NTS threats, such as natural disasters and pandemics. Monitoring capacities must be strengthened at the regional, national and local levels. These include developing mechanisms to compile national and sub-national risk profiles and capacities. The latter will help in facilitating humanitarian assistance to populations of concern and to review mandates and capacities at the national level.

3. Finance and resource mobilisation strategies must be developed to address different NTS challenges. Countries must harness resources from their bilateral partners, international institutions like the ADB, AIIB, World Bank, as well as engage with the private sector. These strategies must also be streamlined to avoid duplication and waste.

4. Food resilient systems need to be developed to ensure food security against disruptions like pandemics and other crises. Global pandemics like COVID-19 have long-lasting consequences, so ‘pandemic-proofing’ food security strategies at the national and regional levels is imperative if states were to sufficiently respond to multiple disruptions caused by pandemic or other types of crises. These include increasing investment in the agri-food sector through R&D and entrepreneurship. Expanded R&D is needed to develop climate-smart and resource efficient technologies to build sustainable and resilient food systems.

5. In the “age of pandemics,” strategies on pandemic preparedness and response are critical to national and human security. These include building up capacity in disease surveillance, data collection and multi-sectoral responses in public health emergencies. With respect to COVID-19 pandemic, it is clear that inaction across governments came at a great cost to human lives and livelihood. There should be more investments in building up comprehensive national health systems and informed by the principles of universal health coverage.

6. Greater efforts must be done by ASEAN countries to promote deeper cooperation in addressing NTS challenges. Joint collaboration or partnership must be developed in protecting the marine environment including stopping plastic pollution, and encourage collaboration in manufacturing of vaccines and therapeutics, as well as R&D partnership in developing and/or harnessing technologies and artificial intelligence to manage NTS threats.

7. Countries should actively support and participate in multilateral frameworks like ASEAN, the ASEAN Plus Three, East Asia Summit and minilaterals like the QUAD to promote greater dialogue and engagement to advance cooperation in NTS issues.

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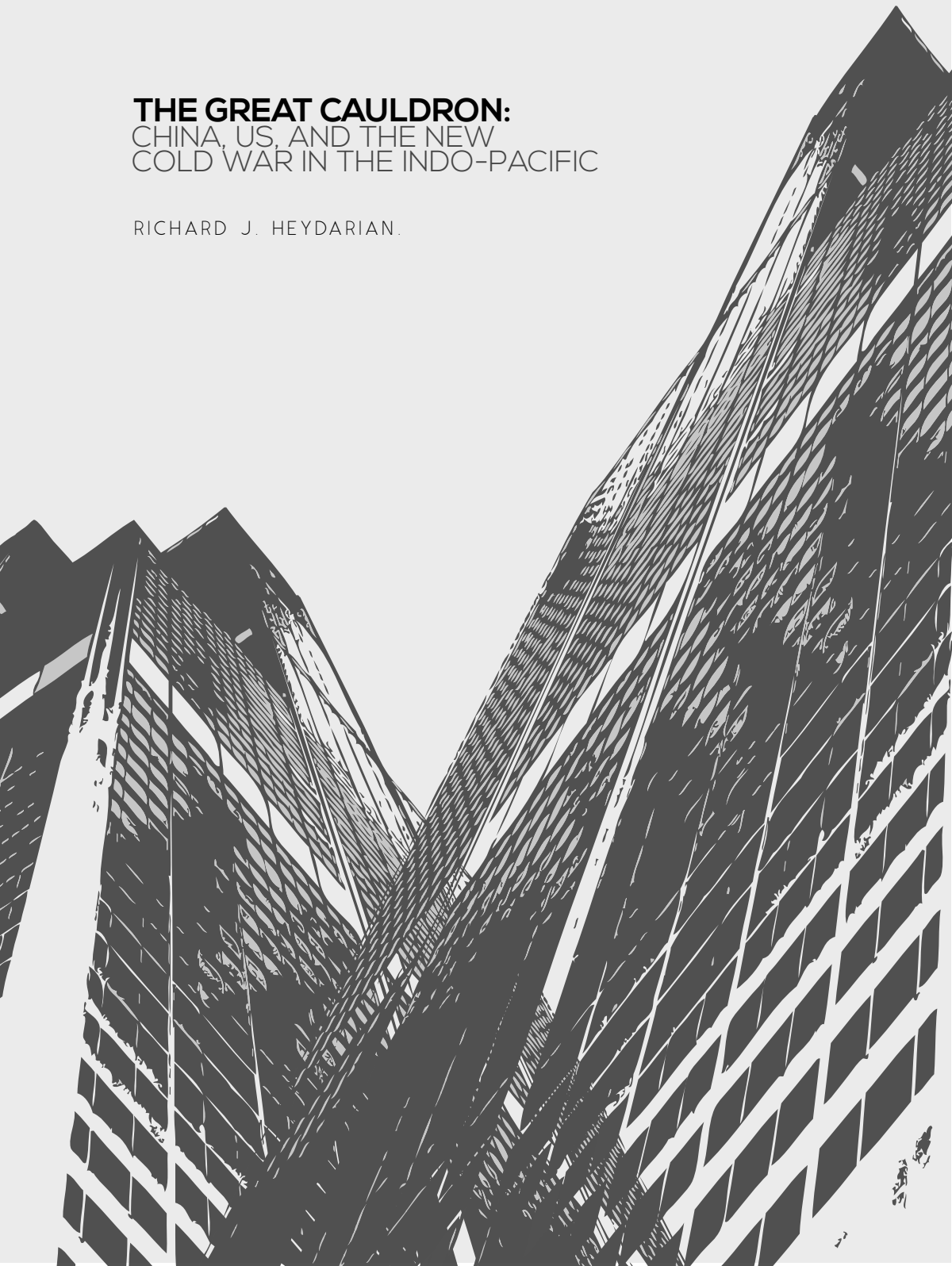
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THE GREAT CAULDRON: CHINA, US, AND THE NEW COLD WAR IN THE INDO-PACIFIC

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The Revisionist Challenge

Envisioning the future of Asia's rapidly evolving security architecture, the late Singaporean Prime Minister Lee Kuan Yew cautioned, "The size of China's displacement of the world balance is such that the world must find a new balance. It is not possible to pretend that this is just another big player. This is the biggest player in the history of the world." In short, Lee argued, China's re-emergence as the primary indigenous security actor in Asia may not only require tactical 'balance-of-power' readjustment, especially among immediate neighbours and rivals, but instead potentially portends an overhaul of the entire regional security architecture. This is especially true in Southeast Asia — China's strategic depth in ancient times and, now, the new theatre of great power competition in the 21st century.¹

The scale and breadth of China's rise can't be overstated, even when compared to other rising powers in modern history (See Figure 1 and Figure 2). Today, the Asian powerhouse is the world's leading consumer of basic goods, largest exporting nation, and increasingly a top source of foreign investments, especially in critical infrastructure, across the developing world. Already one of the world's biggest lenders, having surpassed the World Bank and other international financial organization years earlier, Beijing also has been spearheading the establishment of parallel international initiatives such as the Asian Infrastructure Investment

Bank (AIIB), headquartered in Beijing, as well as the New Development Bank, headquartered in Shanghai. But the real deal is arguably China’s much-vaunted Belt and Road Initiative (BRI), which covers 2,600 projects across 64 nations, representing 62% of the world’s population, and spanning, so far, at least three continents. China’s gigantic policy banks, namely the Industrial and Commercial Bank of China, China Development Bank, Bank of China, and Export-Import Bank of China, have underwritten this ambitious initiative, which President Xi Jinping has proudly described as “the project of the century.”²

Figure 1 . Rising Powers’ Share of Global GDP in their Peak Decades
(In Percent)

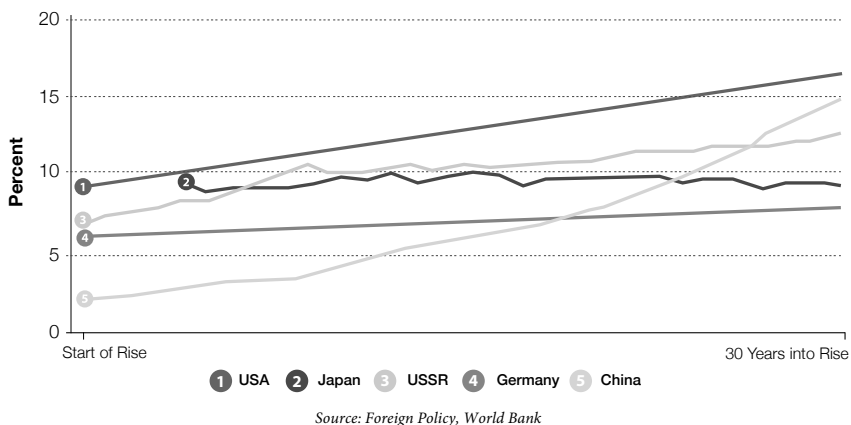
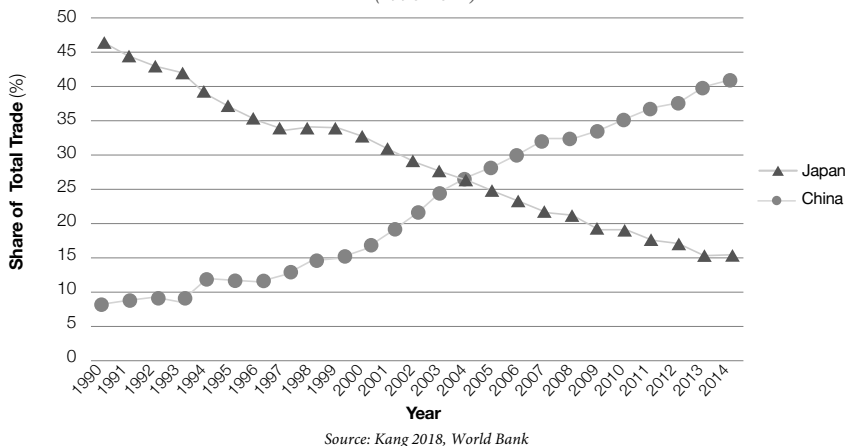


Figure 2 . Share of Total Regional Trade
(1990-2014)



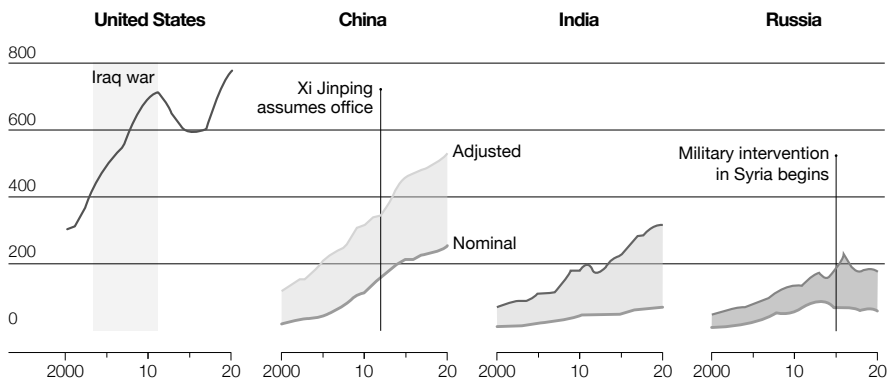
In fact, China has arguably overseen the most impressive capitalist expansion in human history. The Asian powerhouse managed to, within a single generation, transform from an impoverished and isolated communist nation into the world's second largest economy. In East Asia, China's rise was even more disruptive, firmly displacing Japan from its historical position as the economic engine of the region. Between 1990 to 2014, China's share of regional GDP grew from only 8% to 51%, while its share of regional trade went from only 8% to 39%.³ But there is more: During the COVID-19 pandemic, China was the only major economy to post growth, placing it in a strong position to become the world's largest economy before 2030.⁴

In *The Rise and Fall of the Great Powers*, the historian Paul Kennedy argued that “there is a noticeable ‘lag time’ between the trajectory of a state's relative economic strength and the trajectory of its military/territorial influence.”⁵ Yet, China has been a gigantic outlier, having rapidly modernized the world's largest armed forces. At once, Beijing is deepening both its asymmetric anti-access/area denial (A2/AD) capabilities – namely, “carrier killer” anti-ship ballistic missiles (ASBMS) such as the DF-21D and DF-26 platforms, which allow it to leverage China's geographic advantages as a major continental nation-state surrounded by four seas – as well as its conventional warfare capabilities.⁶ The million-strong People's Liberation Army (PLA) has also expanded its fleet of fifth-generation fighter jets, aircraft carriers, and nuclear submarines, while consolidating its overall C4ISR (Command Control Communication Computer and Intelligence Surveillance Reconnaissance). In fact, a more accurate estimate of China's defense spending, in purchasing power parity (PPP) rather than market exchange rates, places the Asian powerhouse only second to, and not far behind from, the United States (US) (See Figure 3).

Already boasting the world's largest marine fleet, with gigantic coast guard vessels dwarfing warships of smaller neighbouring states, China is also expanding its military and commercial footprint across a string of strategic bases and port facilities in the Indo-Pacific. Having secured or imposed its will across much of its expansive land borders, Beijing has now laid its gaze on dominating what it describes as its “blue national soil”, namely the South China Sea and the East China Sea.⁷

With economic and military power has come growing ideological posturing, with China's new paramount leader, Xi Jinping now openly promoting a “uniquely

Figure 3. Top Countries by Defense Spending: Nominal vs. Adjusted for Military Purchasing-Power Parity (PPP)
(In Billion USD)



Source: Kang 2018, World Bank

Chinese model” of development overseas,⁸ advocating for the establishment of an ‘Asia for Asians’⁹ across the Eurasian landmass and rimlands. Flushed with cash, Xi is also touting his ‘project of the century’, namely the Belt and Road Initiative (BRI), which may ultimately serve as the foundation of a ‘Chinese world order.’¹⁰ One could argue that Xi is the Mao Zedong with money: namely, an ideologically committed, decisive, and powerful leader, who also happens to oversee a military behemoth and the world’s industrial heartland.

With growing power, however, often comes more aggressive ambitions, especially among revanchist former empires with expansionist impulse. The late Singaporean leader clearly saw this coming, having correctly anticipated that the geopolitical shock of a resurgent China will be most directly and immediately felt in his region, Southeast Asia. Ever the wide-eyed realist, Lee maintained that there is a widely “held consensus that the U.S. presence in the region should be sustained”, since “military presence does not need to be used to be useful”, but American “presence [alone] makes a difference and makes for peace and stability in the region.” The Singaporean leader saw this formula – namely, the need for the U.S. to act as an ‘onshore balancer’ – most relevant in the case of the South China Sea disputes, since “China will not let an international court arbitrate territorial disputes in the South China Sea”.

Lee proved prescient, especially when years later China categorically rejected the South China Sea Arbitral Tribunal award at The Hague, under the aegis of the

United Nations Convention on the Law of the Sea (UNCLOS), as a piece of ‘trash paper’, having unabashedly adopted the ‘three nos’ policy of non-participation, non-recognition, and non-compliance vis-à-vis a final and binding international ruling. For the Singaporean leader, the best antidote to Chinese revanchist instincts, and defiance of international law, is “the [continued] presence of U.S. firepower in the Asia-Pacific” so that the “[United Nations] Law of the Sea [will] prevail.”¹¹ In short, he saw international law, and by extension the observation of regional norms and principles, effective if, and only if, it’s anchored by American naval prowess and overall geopolitical leadership. In many ways, this is the story of the emerging security architecture in the Indo-Pacific, as the Joseph Biden administration tries to rally treaty allies and like-minded powers to constrain China’s worst instincts. If anything, the late Singaporean leader was effectively espousing what political scientist Gerald Segal described as a ‘constraint’ strategy, which “is intended to tell [China] that the outside world has interests that will be defended by means of incentives for good behavior, deterrence of bad behavior, and punishment when deterrence fails.”¹²

The overarching geopolitical reality of our time is that China is too big and too integral to the global economy to be “contained” in terms envisioned by George Kennan at the onset of Cold War between the West and the Soviet Union.¹³ The containment strategy entailed an aggressive and, at times, even pre-emptive deployment of military force to prevent the expansion of Soviet influence in Europe and the post-colonial world, thus the massive conflicts in the Korean Peninsula, Indo-China and the Eurasian region. In contrast, a ‘constraint’ strategy embraces a more calibrated, alliance-based deployment of a combination of diplomatic, economic and military countermeasures to deter Beijing’s revisionist instincts.

While China may not have a feet of clay, it does have its own good share of structural vulnerabilities and internal challenges.¹⁴ After all, China is still a developing nation, which is home to hundreds of millions of workers with precarious jobs in a rapidly evolving economy. The Asian powerhouse also grapples with massive bubbles in the highly-leveraged financial as well as property markets, with the recent Evergrande Group collapse as its most potent expression; deeply monopolistic practices in the digital economy with potentially destabilizing effect on the most dynamic sectors; restive peripheries, where ethnic minority groups have been facing systematic repression and discrimination; and

a plethora of environmental and social challenges, which constantly keep Chinese leaders on their toes.¹⁵ Xi Jinping's draconian reforms in the past year – from his crackdown on fintech monopolies and private tutors to his emphasis on “common prosperity” and primacy of the communist party – is less a reflection of executive strength than the depth of policy dilemmas faced by Beijing.¹⁶

Almost half-a-century since the Nixon-Mao meeting, and the ensuing *détente* between the two former rivals, the US and China have once again found themselves on a collision course. But was this inevitable? At the heart of rising tensions in the Indo-Pacific, and the emerging New Cold War between the two superpowers, is Beijing's brazen opportunism since the 2007-2008 Great Recession, which shook the foundations of American power.

Over the succeeding sections, the paper provides an overview of the emerging geopolitical alignments in the Indo-Pacific in response to China's strategic opportunism. It covers the roots and trajectory of China's strategic revisionism in the Indo-Pacific, efforts by various US administrations as well as key middle powers such as Japan and Australia to constrain Beijing's expansionist instincts, as well as the need for greater ‘minilateral’ cooperation between key Southeast Asian countries, including the Philippines, and like-minded external powers, which share a common interest in preserving rule of law as well as freedom of navigation and overflight in vital sea lines of communications such as the South China Sea.

Strategic Opportunism

In his classic work, *World Order*, Henry Kissinger argued that an ‘order’ – namely a set of commonly-accepted rules governing inter-state relations – is challenged when there is “either a re-definition of legitimacy or a significant shift in the balance of power.”¹⁷ In many ways, this is exactly what's taking place in the Indo-Pacific as China presses ahead with its revisionist grand strategy, purposefully drawing on its enormous resources and vast networks of influence to advance a Sino-centric geopolitical order in the region, not only at the expense of America, the traditional hegemon, but also to the sovereignty and sovereign rights of smaller neighbors, especially those with territorial and maritime disputes with the Asian powerhouse.

For decades, Beijing followed Deng Xiaoping's "Hide your strength, bide your time" dictum, itself drawn from Sun Tzu's legendary Art of War. From the late-1970s to the late-2000, China adopted what the Italian thinker Antonio Gramsci dubbed as the War of Position, namely strengthening the foundations of its power while avoiding War of Maneuver, namely a direct confrontation with the West as well as powerful neighbors such as Japan and India.¹⁸ Deng managed to cajole even the hardliners (Ying Pai), who couldn't ignore the tremendous asymmetry in power between China and America in every major indicator of national power.¹⁹

Thus, what began as a "Cold Peace" between Washington and Beijing in the twilight years of the Cold War soon transformed into an even seemingly cordial relationship, especially during the George W. Bush administration, which either ignored the rise of or saw a potential partner in China for his Global War on Terror (GWOT). Things, however, took a dramatic turn following the 2007-08 Great Recession, which exposed structural vulnerabilities in Western economies and accentuated triumphalist sentiments among Chinese hardliners. The new mood in Beijing was fully on display during the 2009 World Economic Forum in Davos, when the usually taciturn and diplomatic Chinese premier Wen Jiabao joined his then Russian counterpart, Vladimir Putin, in lambasting the West's "inappropriate macroeconomic policies," and its "unsustainable model of development characterized by prolonged low savings and high consumption," "blind pursuit of profit," and the widespread "failure of financial [regulatory] supervision" in the US. It didn't take long before Beijing adopted a more strident tone towards its Western diplomatic guests. In a 2010 diplomatic cable, titled 'Stomp around and carry a small stick: China's new "global assertiveness"', the American embassy warned of "China's muscle-flexing, triumphalism and assertiveness in its diplomacy" as well as "its newly pugnacious attitude", which is best reflected in "the nationalistic, jingoistic and Chinese Communist Party-affiliated newspaper" Global Times (Huanqiu Shibao) "it's about time" mindset. Then US ambassador to Beijing, Clark T. Randt Jr. also noted the new mood among increasingly emboldened Chinese leaders, who could "change their assessment [of American power] and [accordingly] exert economic pressures on U.S. allies like Thailand or the Philippines to choose between Beijing and Washington."²⁰

Meanwhile, China also began to step up its expansive claims across adjacent waters, from the East China Sea (against Japan) to the South China Sea, where the Asian powerhouse has been at loggerheads with smaller Southeast Asian states of

Vietnam, Malaysia and the Philippines. Perturbed by China's growing maritime assertiveness, Malaysia and Vietnam decided to submit their continental shelves claims to the UN Commission on the Limits of the Continental Shelf (CLCS). In response, China officially unveiled its "nine-dashed-line"²¹ claims, which covers the bulk of the South China Sea basin as well as huge portions of the Exclusive Economic Zone (EEZ) of Malaysia, Vietnam and the Philippines. During the 2010 ASEAN Regional Forum (ARF), China's Foreign Minister Yang Jiechi, a veteran diplomat and former ambassador to Washington, lashed out at smaller Southeast Asian nations by warning, 'China is a big country and other countries are small countries, and that's just a fact.'²² The Chinese diplomat was reportedly riled up by concerted calls by key Association of Southeast Asian Nations (ASEAN) states for greater American role in the region, which culminated with then Secretary of State Hillary Clinton's declaration that freedom of navigation in the South China Sea is in America's "national interest" and that Washington is willing to assist in the negotiation of legally-binding Code of Conduct (COC) to resolve the regional disputes.

This was clearly a response to Beijing's characterization of the maritime disputes as a matter of "core interest."²³ The following year, between February and March 2011, China was involved in at least five major incidents in the disputed waters, as Beijing began to flex its naval muscle, deploy its "five dragons in the high seas" armada of coast and paramilitary vessels to the area, and harass energy exploration and fisheries activities by smaller neighbors.²⁴ Amid a seismic political transition from the Hu Jintao to Xi Jinping administration, China upped the ante by effectively seizing the Scarborough Shoal from the Philippines following a months-long naval stand-off in 2012 as well as launching an island-building spree across the Paracel and Spratly group of islands in late-2013. It was precisely China's growing assertiveness, and the protean challenge to the post-war liberal international order in East Asia, which encouraged the Obama administration to adopt the Pivot to Asia (P2A) policy, which at once reinforced American regional leadership and signaled its determination to check Beijing's worst instincts. It was also in response to China's island-grab in the South China Sea, particularly the Scarborough Shoal, that the Philippines decided to file an unprecedented arbitration award against China at The Hague.²⁵

If there were any illusions about China's supposedly peaceful strategic ambitions, the year 2020 has put them to rest. Even at the height of the COVID-19 pandemic, which has ravaged nations across continents and infected top military

officials in neighboring countries, China could not help pushing the envelope and imposing its will on smaller powers across adjacent waters. Throughout the first six months of 2020, Beijing's naked opportunism was on full display, unlike any point in contemporary history. This is especially true in the South China Sea, an artery of global trade, where smaller claimant states have faced China's harassment of their fishermen (Vietnam), warships (the Philippines) and oil exploration activities (Malaysia), just as the US and other external powers had to temporarily suspend military deployments to the region as they grappled with COVID-19 outbreaks and fears of contagion.

But China's growing naval assertiveness was not confined to intimidating much weaker rival claimants. In mid-2020, US Deputy Assistant Secretary of Defense for Southeast Asia, Reed Werner, cited "at least nine" instances of harassment by Chinese fighter jets of US reconnaissance aircraft.²⁶ Neighboring Taiwan, the de facto independent island, has had to grapple with ever-increasing numbers of Chinese incursions into its airspace, as well as massive Chinese naval drills, including multiple "four seas" military exercises extending from the Yellow Sea and East China Sea all the way to the Taiwan Strait and the South China Sea, which were clearly intended to intimidate rivals and demonstrate the Asian powerhouse's military muscle.²⁷ On top of this, China unabashedly reinforced its expansive claims in adjacent waters by unveiling new facilities on the disputed Spratly Islands,²⁸ as well as announcing two new administrative regions, Xisha and Nansha, covering the bulk of the South China Sea—a clear violation of prevailing international law, as specified by the 2016 arbitral tribunal award at The Hague under the auspices of the United Nations Convention on the Law of the Sea (UNCLOS). And almost exactly a year into the pandemic, China upped the ante by passing a new maritime law, which effectively greenlights the use of force by China's massive coast guard and paramilitary maritime forces against rival claimants, as part of a broader effort to operationalize Beijing's claims over much of the South China Sea.²⁹

Constraining China

"This is the alliance we reaffirm today – rooted in our values; renewed by every generation," declared President Barack Obama during his historic speech before

the Australian Parliament in 2011. “And today I can stand before you and say with confidence that the alliance between the United States and Australia has never been stronger.” In a speech drenched in pathos, the United States president the “solidarity” between the two allies and, accordingly, Australia’s unprecedented decision to invoke the ANZUS (Australia-New Zealand-US) treaty to assist in the Global War on Terror. What made the speech particularly important is not its sonorous rhetoric per se, but instead the Obama administration’s official declaration of its “Pivot to Asia” (P2A) doctrine.

The US president hailed “a broader shift” away from “two wars that cost us dearly, in blood and treasure” in favor of “the vast potential of the Asia Pacific region”. In no uncertain terms, Obama underscored “[o]ur new focus on this region reflects a fundamental truth – the United States has been, and always will be, a Pacific nation.” Nevertheless, the former US president made it clear that its strategic recalibration is not directed against any specific country, emphasizing his commitment to “continue our effort to build a cooperative relationship with China.” Almost exactly a decade later, the US President Joseph Biden, who served as Obama’s number two, has introduced a far more assertive twist to the P2A strategy by building a new ‘coalition of willing’, if not an “Asian NATO”, against a resurgent China. As Biden put it in his first State of the Union speech, ‘We are in a competition with China to win the 21st century.’³⁰ While welcoming constructive engagement with Beijing, the Biden administration has repeatedly drawn the line against China’s predatory practices, whether in the seas, on land or in the realm of high-tech competition.

This radical shift in America’s China policy is a reflection of a new and enduring bipartisan consensus. After all, it was the Trump administration, which first employed key elements of a ‘constraintment’ strategy under the so-called “Free and Open Indo-Pacific” (FOIP) doctrine.^{31,32} While there was a misguided abandonment of the Obama administration’s economic initiatives, most notably the Trans-Pacific Partnership (TPP) deal, a degree of much-needed military pushback against China’s excessive claims and unlawful activities ramped up. For instance, the US Freedom of Navigation Operations (FONOPs) became more regular, more aggressive, and more geographically expansive,³³ while Foreign Military Financing (FMF) to frontline regional allies such as the Philippines almost doubled. Public and legally-relevant reassurances of support in an event of contingency, namely the precise circumstances of the applicability

of the Philippine-US Mutual Defense Treaty (MDT) in the South China Sea, were also provided. In a sense, we saw a revamped version of the Pivot to Asia (P2A) policy, which suffered from military reticence under the preceding Obama administration. To put things into context, the Obama administration consistently prevaricated on the applicability of the MDT to any potential conflict between the Philippines and China, while woefully fell short in fulfilling its own promise of regularized, quarterly FONOPs in the South China Sea.³⁴ During its twilight years in office, the Obama administration conducted only two such operations in 2015 and only three in 2016.³⁵ In contrast, the Trump administration conducted as many as six in 2017 and nine in 2019, with an average of around six FONOPs per year in its four years in office.³⁶

Expanded naval deployments and greater military assistance to allies went hand in hand with an unprecedented set of punitive measures against China's predatory trade and investment practices, unlawful reclamation activities in the South China Sea, as well as systematic human rights violations from Xinjiang to Hong Kong. By and large, the Biden administration has largely built on its predecessor's tough China policy,³⁷ albeit with (i) greater emphasis on proactive engagement with treaty allies,³⁸ strategic partners and like-minded powers in the Indo-Pacific and (ii) more measured diplomatic language under veteran experts now in charge of the State Department and the Department of Defense.³⁹

The Quad

Upon closer examination, it's increasingly clear that this is no longer just a question of US-China rivalry, but instead growing efforts by a coalition of like-minded powers, stretching from Europe to India, Australia, and Japan, which aim to constrain Beijing's expansionist ambitions. The resurgence of the Quadrilateral Security Dialogue, better known as the "Quad", is the most powerful expression of this seismic shift in regional geopolitical alignments – and an emerging US-led 'constrainment' strategy against China. Barely two months into office, the Biden administration organized the third Quad ministerial-level meeting and, more dramatically, the first-ever Quad summit. The White House admitted that the palpable urgency behind the Quad gatherings reflected "the importance we place on close cooperation with our allies and partners in the Indo-Pacific." As Biden's

National Security Adviser Jake Sullivan put it, the Quad has now become the pivot of U.S. policy in the region, “a foundation upon which to build substantial American policy.”^{40,41}

When the Quad was first conceptualized as a ‘minilateral’ initiative in mid-2000s, it quickly petered out. Back in 2007, both Australia and India, then under more Beijing-friendly governments, succumbed to Chinese pressure by not pressing ahead with quadrilateral naval exercises, leaving the future of the entire Quad in limbo. During a visit to China in 2008, Australia’s then-foreign minister Stephen Smith went so far as to announce his country’s withdrawal from the Quad, reflecting Canberra’s determination to maintain cordial ties with China. The Bush administration, meanwhile, was bogged down in conflicts in the Middle East. As for Japanese Prime Minister Shinzo Abe, who was among the chief architects of the concept of the “Indo-Pacific” and, by extension, the Quad, his first term in office barely lasted a year. In recent years, however, China’s increasingly assertive foreign policy as well as expanding naval footprint in adjacent waters has triggered a Quad renaissance. Australia and other like-minded Indo-Pacific powers, including France, Britain and Germany, have since stepped up their strategic and military cooperation in the South China Sea and Western Pacific.⁴²

The Quad’s growing military significance is best represented by the Malabar exercises, which began in 1992 between Indian and US naval forces and were initially held off the Indian coast, specifically in the Bay of Bengal and the Arabian Sea, but later expanded to include the Western Pacific. Since 2015, Japan has consistently joined the naval drills, which aim at enhancing interoperability and military-to-military diplomacy among Indo-Pacific powers. But it was not until last year that Australia, a US treaty ally, decided to rejoin the exercises following a 13-year hiatus. China has lashed out at the various exercises as an effort to “contain” its rise, while conducting its own major war games in adjacent waters just days before the latest Malabar exercises off of Guam. Australia is set to formally invite India to join the Exercise Talisman Sabre joint exercise in 2023, the latest iteration of which saw 17,000 military personnel from seven nations, including Britain, South Korea and New Zealand, participating in massive war games on land, air and sea. Back in April, 2021, the Quad and France also conducted the La Pérouse exercise in the Bay of Bengal. Following other Indo-Pacific powers and adding a new geostrategic twist to the contest, India has also deployed a naval contingent to the South China Sea this year, a reflection of the growing anxiety over the

inability of smaller Southeast Asian nations to hold China's sea ambitions at bay.⁴³

On a bilateral level, meanwhile, a whole host of Indo-Pacific powers have been rapidly enhancing defense ties, while the US has been doubling down on its key regional alliances. The Australia-UK-US (AUKUS) nuclear submarine deal, for instance, is a clear indication of growing focus on high-stakes defense cooperation in the Biden administration's overall constraint strategy against China. Meanwhile, India has stepped up its defense deals with France and Japan, which have offered the South Asian powerhouse advanced military technology -- underscoring the multifarious and cross-cutting networks of military cooperation across the Indo-Pacific. On its part, the Indo-Pacific Command (INDOPACOM), which oversees the Pentagon's operations in the region, has sought up to USD 27 billion in additional spending between 2022 and 2027, with USD 4.6 billion allocated for next year. Earlier, former INDOPACOM chief Admiral Philip Davidson lobbied for extra funding for expanded deployment of US strategic missile defense systems and surveillance radars to key US bases in the region in order to create "highly survivable, precision-strike networks along the First Island Chain", which stretches from the East China Sea in the north to the South China Sea in the south. The Pentagon is also exploring the prospects of establishing a new "expeditionary" fleet to primarily counter China's naval ambitions and signal a strong new commitment to its regional allies. The Biden administration, however, also recognized the need for a comprehensive strategy, which has both a defense as well as an economic component.⁴⁴

Alternatives to the BRI

In response to China's growing economic influence in the Indo-Pacific, the Trump administration lambasted Beijing's infrastructure projects as nothing short of "predatory" investments. At times, top US officials even threatened military allies to shun the BRI, especially telecommunications investments, or face the music. The former administration also established an Indo-Pacific Transparency Initiative to expose and shed light on the predatory aspects of Chinese investments. The problem, however, is that the Trump administration repeatedly failed to provide an actual alternative beyond just lambasting China's. And it's much-touted USD 60 billion Better Utilization of Investments Leading to Development (BUILD)

initiative, which aimed at countering Beijing's economic influence in strategic regions, never took off.⁴⁵

Recognizing the need for a literally constructive agenda, President Joseph Biden has pressed ahead with whole host of multilateral initiatives from the Blue Dot Network (BDN), a joint project with Japan and Australia, to the Build Back Better World (B3W) initiative with fellow G7 powers. It has also sought to transform the Quad into a multidimensional vector of cooperation, including on issues such as 'vaccine diplomacy' and climate change. Unlike Beijing's state-driven BRI, these US-led efforts are multi-stakeholder initiatives, which tap into a broader pool of expertise, including from the civil society, as well as potential investors, including from the Wall Street, Big Tech companies, and sovereign wealth funds in emerging economies. In fact, the Biden administration can take the lead in tapping into USD 110 trillion in estimated private investments across the West by facilitating reliable, long-term projects in the developing world. The US can also oversee the consolidation of major multilateral initiatives such as the "Partnership on Sustainable Connectivity and Quality Infrastructure" between Japan and the European Union (EU) under an overarching global initiative. Down the road, other like-minded powers such as Australia, South Korea, Singapore and India can also pitch in.⁴⁶

Boosted by bipartisan support at home, the Biden administration has also stepped America's own infrastructure investment strategy in order to directly compete with China. The US taxpayer-funded Development Finance Corporation (DFC), for instance, is set to raise billions of dollars on climate-focused infrastructure investments among developing countries. Moreover, top Biden officials are also contemplating a new, Trans-Pacific Digital Trade Agreement. The proposed deal will cover US digital trade with Canada and Chile in the Western hemisphere to Australia and New Zealand in the Pacific as well as Japan, Singapore, and Malaysia in East Asia. Other top US allies, especially South Korea, as well as major strategic partners such as Vietnam and India are among other top candidates. The proposed deal promises to be more inclusive and flexible than the TPP, which demands massive structural economic reforms among negotiating partners and thus bypassed many key US allies such as Thailand, the Philippines and Indonesia, Southeast Asia's largest economy. Former acting Deputy US Trade Representative Wendy Cutler is widely seen as a top advocate of the deal, which would complement the existing US-Japan Digital Trade Agreement, the

Singapore-New Zealand-Chile Digital Economy Partnership Agreement and the Singapore-Australia Digital Trade Agreement.⁴⁷

Fortunately for the US, it can also rely on the contribution of its ‘middle power’ allies. On the trade front, Japan, together with Australia and other Indo-Pacific partners, has effectively rescued the TPP under the rebooted Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP); facilitated, in conjunction with Indonesia and ASEAN, the Regional Comprehensive Economic Partnership (RCEP) negotiations, the biggest of its kind anywhere in the world; and secured a trade deal with the European Union, the world’s biggest bilateral free trading agreement on record, pushing back against Trump’s populist protectionism. All of these initiatives were part of Abe’s vision of a ‘security diamond’ among like-minded democratic powers across the Indo-Pacific, most especially India, and with the rise of China as a key driving force.⁴⁸ On the infrastructure front, Japan, under the “Asia connectivity” strategy, has been the leading investor in Southeast Asia, where there is growing worries about debt sustainability and corrosive investments under China’s Belt and Road Initiative (BRI). Under Prime Minister Shinzo Abe, arguably the ultimate architect of the “Indo-Pacific” strategic concept,⁴⁹ Japan launched a US\$110 billion infrastructure investment program, which emphasized high-quality, employment-generating, transparent and big-ticket projects. In the critical region of Southeast Asia, a theatre of superpower rivalry, Japan proved strategically nimble. Its total pledges to infrastructure investments in the region amounted to USD 367 billion, much higher than China’s USD 255 billion. In key Southeast Asian countries, like the Philippines, the margin is even more prominent, with Japan involved in 29 infrastructure projects worth USD 43.5 billion compared to Beijing’s only eight big-ticket yet still mostly prospective projects worth around USD 7.4 billion.⁵⁰

Japan has also teamed up with the EU to combat the risk of Eastern European nations’ potential fall into a so-called Chinese “debt trap.”⁵¹ Under Abe’s successors, Japan is set to further expand its global infrastructure blueprint, with a bilateral USD 4.5 billion hi-tech initiative with the US,⁵² a trilateral Blue Dot Network with the US and Australia,⁵³ as well as a multilateral Build Back Better World (B3W) partnership with other G7 powers.⁵⁴ It must be said, however, that Japan’s infrastructure vision is not necessarily matching China’s investment pledges on a dollar-to-dollar (or yen-to-renminbi) basis, but instead advocating transparent, sustainable, quality infrastructure across the Indo-Pacific and Eurasian landmass.

And this has gone hand in hand with Japan's tightening maritime security partnership with ASEAN members, especially the Philippines and Vietnam, and to a lesser degree Malaysia, which have benefited from Japanese assistance in the realm of domain awareness and the development of nascent coast guard forces across maritime Southeast Asia.⁵⁵ Similar to Japan, Australia has also upgraded its strategic ties with ASEAN, with the inaugural 2018 Australia-ASEAN summit underscoring the depth of burgeoning strategic partnership. The two sides have, *inter alia*, signed an investment agreement that aims to "develop a pipeline of high-quality infrastructure projects, to attract private and public investment."⁵⁶ Separately, India, which held its own inaugural bilateral summit with ASEAN in early 2019, has been expanding its technical and developmental assistance to ASEAN and its key countries, especially Vietnam, but increasingly also to the Philippines and Indonesia.⁵⁷

The Case for Minilateralism

If there is one lesson of history, however, it is that ASEAN is not a monolithic organization, hence its potential to truly become a 'central' player in shaping the Indo-Pacific order. What both unnuanced critics and obstinate apologists of the regional body tend to miss is that ASEAN has displayed remarkable flexibility and adaptation throughout a half-century of experimentation in regional integration, often under the most impossible conditions. The path forward, therefore, is two-fold. On the one hand, ASEAN needs to seriously reconsider its existing unanimity-based decision-making structure, which is a recipe for disaster not only on the South China Sea disputes but also on humanitarian crises such as the anti-Rohingya ethnic cleansing campaigns in Myanmar in recent years. Unanimity is often the pretext for inaction, a mockery of ASEAN's aspirations for 'centrality.' To be relevant, autonomous and capable of serving as an agent of stability (rather than subservience), ASEAN has to dispense with its 'cult of consensus.' The regional body can, for instance, rely more on the rarely deployed yet tried-and-tested "ASEAN Minus X" formula, whereby unanimity is not a prerequisite for decisive action or even just a robust joint statement on a matter of immense geopolitical relevance such as the South China Sea disputes.⁵⁸

Even better, ASEAN could adopt the European Union's often-used weighted qualified majority voting modality, where the population density and geopolitical heft of member states is taken into consideration.⁵⁹ But the second, and perhaps more feasible, way to augment ASEAN's quest for 'centrality' is to expand minilateral cooperative patterns. As Naim Moises, who coined the term 'minilateralism put it, the trick is to deepen cooperation on specific, high-stakes issues among minimum number of countries, who collectively possess maximum possible impact": By minilateralism, I mean a smarter, more targeted approach: We should bring to the table the smallest possible number of countries needed to have the largest possible impact on solving a particular problem."⁶⁰

Thus, like-minded and more independent nations within ASEAN, namely Indonesia, Vietnam and Singapore, can seize the initiative and expand issue-specific minilateral cooperation among themselves on issues of common and urgent concern. The list is long, but there are two major events that are worth mentioning, underscoring a long tradition of pragmatic activism among key regional states, which acted 'minilaterally' with maximum flexibility rather than based on perfect unanimity. ASEAN as a whole may not take a tough stance on China, but key members are taking matters into their own hands. In 2020, Jakarta even invoked the Philippines' 2016 arbitral tribunal award against China at the United Nations, just as it reiterated its uncompromising stance against Beijing's creeping invasion of Indonesian waters off the resource-rich Natuna islands.⁶¹ In recent years, even previously quiescent claimant states such as Malaysia have adopted a tougher stance against China, including the direct questioning of Beijing's expansive maritime claims as well as initiating unilateral energy exploration activities within China's claimed nine-dash line area.⁶²

Externally, America and its allies will not have to convince and engage all of ASEAN per se, but instead focus on key powers within Southeast Asia in order to constrain China's aggressive behavior. The key here is for "Quad" powers of the US, Japan, Australia and India to support capacity-building and self-reliance among the members of ASEAN that are at the frontline of China's expansionism from the South China Sea all the way to the North Natuna Sea. Moving forward, the Biden administration should advocate for the expansion of minilateral cooperation, not only among Quad powers but also between the major regional players and key members of ASEAN. Perhaps it's time to expand the so-called "SQUAD," namely Singapore and the four Quad powers, through institutionalized maritime security

cooperation with other relevant ASEAN members such as Vietnam, Indonesia, the Philippines, and Vietnam, as part of a broader effort to uphold international law and freedom of navigation and overflight in Asian waters.

In fact, authoritative surveys reflect immense Southeast Asian policy elite support for deepened cooperation between the Biden administration and ASEAN amid rising anxieties about China's hegemonic ambitions in the South China Sea and beyond.⁶³ Minilateral cooperation should also extend to the major European powers⁶⁴ of Britain, France and Germany, all three of which have demonstrated their commitment to play a more decisive strategic and maritime security role in the Indo-Pacific, including in the South China Sea. Collectively, the Quad and the "E3" European powers can significantly enhance the maritime security capabilities and strategic position of ASEAN countries on the frontline of the South China Sea disputes. Perhaps, the best way to save 'ASEAN centrality' is precisely to transcend its broken multilateralism in favor of a more dynamic minilateralism, until the regional body gets its own institutional house in order.⁶⁵

Conclusions and Recommendations

China's revisionist challenge to the post-war order in the Indo-Pacific is arguably the single most consequential geopolitical development of our era. On both the economic and military fronts, the Asian powerhouse is gradually creating a new order with Chinese communist characteristics. In the South China Sea, Beijing is literally recreating the map by establishing large-scale artificial islands, which host a wide network of airstrips and military bases at the expense of smaller claimant states such as the Philippines. As the decades-long hegemonic power in the region, the US has responded in kind by not only expanding its own strategic footprint in the Indo-Pacific, but also fortifying regional networks of alliances and strategic partnerships in order to collectively constrain China's expansionist instincts.

Earlier this year, however, the Biden administration came under heavy criticism for seemingly snubbing smaller Southeast Asian nations in favor of consolidating burgeoning strategic ties with Quad powers as well as regaining the trust and confidence of European allies. But the Biden administration more than made up for its relatively slow start earlier this year with a concerted charm-

offensive in the third quarter of this year. US Secretary of State Antony Blinken's frank yet cordial, hours-long summit with ASEAN counterparts in mid-July was broadly praised by Southeast Asian diplomats as "very civil" and a demonstration of the United States' "refreshed commitment" to the region. Then came the back-to-back visits of cabinet-level U.S. officials to the key Southeast Asian states of Singapore, Vietnam, and the Philippines. During their visits to Singapore, both Secretary of Defense Lloyd Austin and Vice President Harris emphasized the U.S. commitment to its regional alliances and partnerships, a cooperative "integrated deterrence" approach to preserving a free and open order in the Indo-Pacific, and a more nuanced and coherent pushback against China's expansionist instincts and "bullying" in the South China Sea.⁶⁶

Amid a new spike in COVID-19 infections in the region, the Biden administration has also doubled-down on its "vaccine diplomacy" in Asia. The two high-level visits to Southeast Asia coincided with the donation of millions of American-made COVID-19 vaccine doses to key ASEAN states. In fact, Indonesia, the Philippines and Vietnam are among the largest recipients of U.S.-made COVID-19 vaccine aid in the world. The greatest indication of the effectiveness of the Biden administration's charm offensive is arguably the full restoration of the Visiting Forces Agreement (VFA) which governs large-scale joint military exercises between Philippine and U.S. military forces. Philippine president Rodrigo Duterte made the unexpected decision following his cordial meeting with Austin, who deftly navigated fault lines in the Philippine-U.S. alliance in recent years, including disagreements over China and human rights issues. The vaccine donations seem to have contributed to Duterte's about-face.⁶⁷ As Philippine defense secretary Delfin Lorenzana told the author, "So the President has said he's recalled, retracted the [VFA termination] because of the vaccines that [the United States] is giving us." But as the Philippines' defense chief admitted, much more was at play: "Personally, playing at the back of my mind, I said it seemed that the President was not serious in terminating the VFA [to begin with]. Otherwise, he should have let the 180 days lapse and then it's done."⁶⁸

The VFA renewal saga is representative of the major long-term challenge for the Biden administration and its successors: reassuring the Philippines and other frontline Southeast Asian states against a resurgent China, most especially in the realm of maritime security and national defense. Duterte's Beijing-friendly views are broadly unpopular at home, but his expressed reservations with regard

to the United States' reliability as an ally are more broadly shared among his top generals as well as the Filipino populace. In recent years, authoritative surveys have revealed lingering concerns over the United States' commitment to come to the rescue of treaty allies such as the Philippines in an event of major contingency in the South China Sea. In a 2017 survey, close to half of Filipinos did not agree to the statement that the United States has been "beneficial to the Philippines" in the context of the maritime disputes. While a welcome development, the restoration of the VFA alone doesn't go nearly far enough in consolidating the Biden administration's plans for an "integrated deterrence" strategy against China's maritime expansionism.⁶⁹

In the near future, the real challenge for the Philippine-US alliance is the full implementation of the Enhanced Defense Cooperation Agreement (EDCA), which is pivotal to the development of an optimal joint response to China's growing presence within Philippine waters and across the disputed South China Sea. Throughout the years, Duterte has repeatedly hamstrung the ability of both allies to fully operationalize EDCA, which was designed to grant U.S. forces expanded access, including the right to preposition weapons and advanced surveillance systems, across strategic bases such as Basa and Bautista airbases, which are close to disputed land features in the South China Sea. But developments in recent weeks suggest that, after years of stalling out, positive momentum is building.

On the eve of 70th anniversary of the Philippine-U.S. Mutual Defense Treaty (MDT) this year, the two allies agreed to move forward with the implementation of EDCA and to negotiate a bilateral maritime security framework. During the recent visit of Defense Secretary Lorenzana and Foreign Affairs Secretary Teodoro Locsin Jr. to Washington, both sides agreed to press ahead with operationalizing EDCA through the establishment of "infrastructure improvement projects", resume the Bilateral Strategic Dialogue later this year, and conduct a 2 Plus 2 Ministerial Dialogue early next year, as the Philippines prepares to transition into a new administration.⁷⁰ Clearly, the Philippines has signaled its commitment to upgrading bilateral defense ties following years of strategic uncertainty under Duterte's watch. During his keynote speech at the Center for Strategic and International Studies this year, Lorenzana proposed major upgrades in the alliance, including greater clarity in terms of the parameters of the MDT and revisions to the guidelines of the defense pact in order to focus on "gray zone" threats in the

South China Sea. The finalization of the pending multi-billion-dollar F16 fighter jet deal between the Pentagon and the Armed Forces of the Philippines would be also crucial to upgrading the alliance as well as the Philippines' "minimum credible deterrence" capabilities against China.⁷¹

Overall, there is still huge room for improvement in terms of the United States' defense and strategic engagement in the Philippines and across Southeast Asia, especially in light of China's rapidly expanding footprint across the South China Sea. But if Washington and Manila can continue on the trajectory they have set in recent months, they may be able to achieve significant progress in the years ahead.

Moving forward, the Philippines, especially under the next administration, should respond to China's strategic opportunism and leverage the broader shifts in geopolitical alignments in the Indo-Pacific on four different fronts:

1. Optimize, leverage and upgrade the Philippines' existing defense agreements with the US, Australia and, overtime, Japan, South Korea and other key regional powers. As a US treaty ally, the Philippines has a unique opportunity to optimize its position within the emerging US-led "integrated deterrence" strategy, drawing on a vast network of interlocking alliances and defense partnerships in the region, against China's naval and territorial assertiveness. To this end, the Philippines-Australia Status of Visiting Forces Agreement (SOVFA) provides significant room for expanded defense cooperation, especially in the realm of maritime security and in light of the AUKUS nuclear submarine deal, which portends a far more consequential and nimble Australian defense policy in the Indo-Pacific. Meanwhile, the Philippines' rapidly burgeoning bilateral defense ties with Japan and South Korea should pave the way for expanded military cooperation and even upgraded defense deals, in consonance with constitutional requirements of relevant parties, with the two other major US treaty allies in East Asia;

2. Pursue and ensure the full implementation of EDCA, following the restoration of the VFA, which will be key to operationalizing the Philippine-US alliance and, accordingly, creating latent deterrence against further Chinese encroachment into Philippine waters. Overtime, the two allies should revisit and update relevant provisions and guidelines in the US-Philippine MDT in order to ensure maximal inter-operability vis-à-vis new and emerging threats, especially

China's increasingly aggressive 'gray zone' tactics employed in the South China Sea;

3. Ensuring continuity in 15-year, three-phased Armed Forces of the Philippines (AFP) modernization program, with greater focus on acquisition of advanced naval, aerial, and strategic defense assets in cooperation with key allies and strategic partners. Both the Aquino and Duterte administrations have made significant strides on this front, yet the next administration should ensure the completion of the second as well as the full implantation of the third phase, or "horizon" of the multi-billion-dollar program. The modernization of the Philippines' conventional military capabilities, however, should be coupled with sustained improvement of our coast guard and Intelligence, Surveillance and Reconnaissance (ISR) capabilities, given the importance of overall maritime domain awareness amid rising maritime tensions in the region;

4. Maintaining a firm, consistent and uncompromising position in terms of the Philippines' sovereign rights in the South China Sea/West Philippine Sea in accordance to the relevant provisions of the 1987 Constitution as well as 2016 Arbitral Tribunal Award under the aegis of the UNCLOS. This means that the Philippines should categorically shun any resource-sharing and exploration agreement, namely a Joint Development Agreement (JDA), which undermines and compromises the country's sovereign rights. Nor should the Philippines accede to any ASEAN-China Code of Conduct (COC) that is contrary to the Philippine constitution and the 2016 arbitral tribunal award at The Hague. At the very least, the Philippines should pursue minilateral cooperation with like-minded ASEAN countries, especially fellow claimant states such as Malaysia and Vietnam. If anything, the negotiation of a COC, based on relevant provisions of UNCLOS, among ASEAN countries is a far more feasible and mutually-beneficial option in light of the uncertainties surrounding the fate of the ASEAN-China COC;

5. Finally, beyond an inter-agency response to rising maritime tensions in the region, the Philippines should adopt a "whole-of-nation" approach to upholding the country's sovereign rights in the South China Sea/West Philippine Sea. This means, among others, multistakeholder consultations; capacity-building

and empowerment of Local Government Units (LGUs) on the frontline of the maritime dispute; institutionalized dialogue among the executive, legislative, and judicial branches of the states; and introduction of a patriotic, objective national curriculum program to ensure sincere and informed public awareness of the Philippines' legitimate and lawful rights in the West Philippine and the South China Sea. Moreover, the Philippines' lawfare (legal warfare) strategy should be backed by a credible defense and fortification of Philippine position on the ground, thus the importance of continuing recent efforts at maintaining and upgrading facilities in Philippine-held land features in the South China Sea in accordance to international law and the country's national interest.

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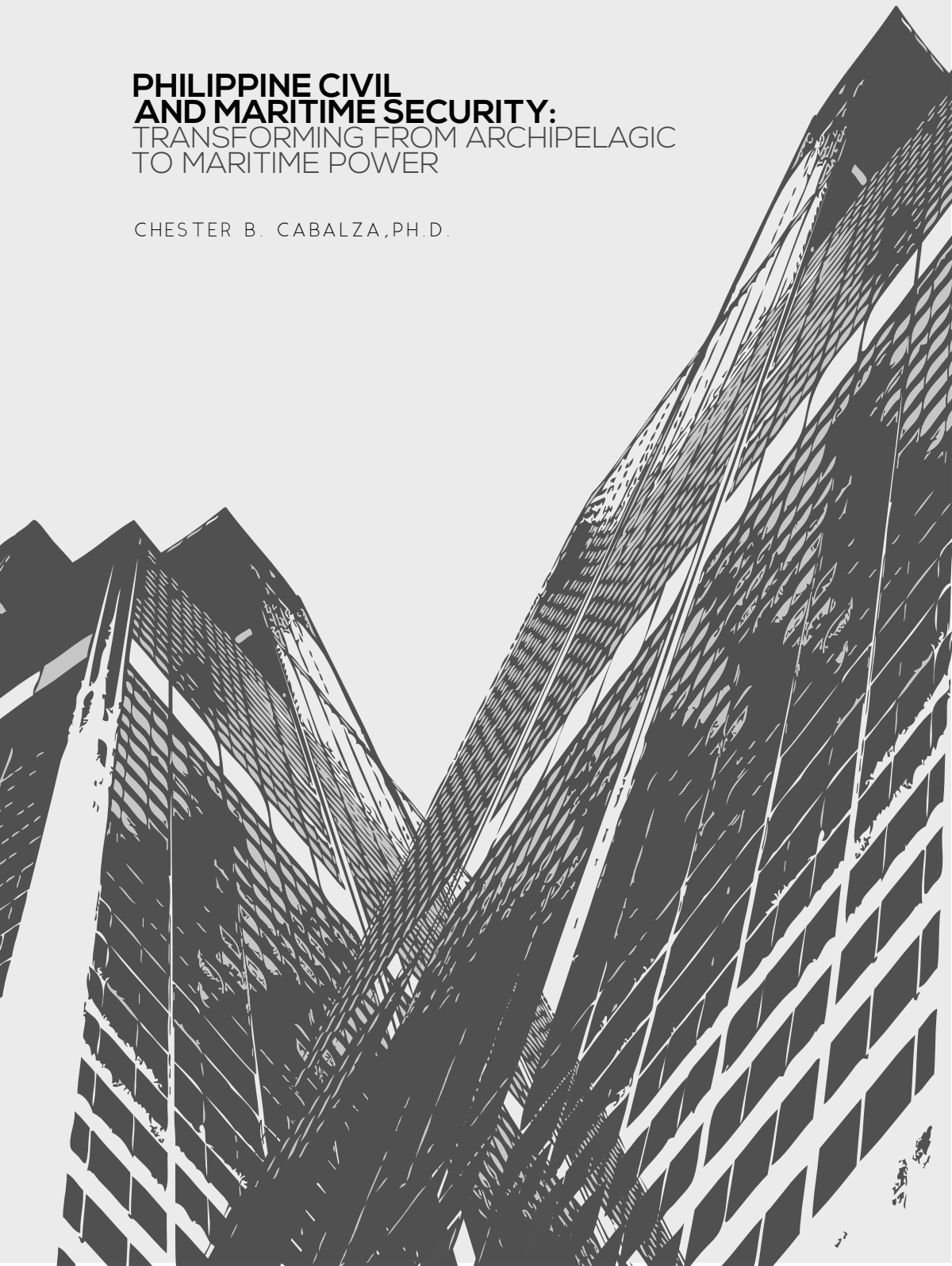
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**PHILIPPINE CIVIL
AND MARITIME SECURITY:**
TRANSFORMING FROM ARCHIPELAGIC
TO MARITIME POWER

CHESTER B. CABALZA, PH.D.



PHILIPPINE CIVIL AND MARITIME SECURITY: TRANSFORMING FROM ARCHIPELAGIC TO MARITIME POWER

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The Philippine maritime security lacks a suitable anchoring policy on its defense cooperation agreement with like-minded nations that affects the securitization of the archipelagic nation's maritime domain. While Manila completes the second horizon of its revised military modernization program and leapfrogs to the third phase this year, and with the election of the new Filipino president on May 9, there are still gaps and missed opportunities that the next administration should prioritize to achieve a robust defense posture and secured civil maritime sector on the country's volatile maritime domain despite drastic changes in regional geopolitics and threats to Philippines' national sovereignty.

Geographically, the Philippines is an archipelagic Southeast Asian state that does not share any land borders with neighboring countries; instead, it is encircled by the Pacific Ocean in the east, the South China Sea in the west, the Celebes Sea in the south, and the Bashi Channel up north. In 2012, the country's island territory has increased by 13 million hectares when the United Nations Convention on the Law of the Sea (UNCLOS) approved its claim to Philippine Rise or Benham Rise; a seismically active region and volcanic ridge located 250 kilometers off the northern coastline of Dinapigue, Isabela. While the evolving South China Sea conundrum remains the major challenge that the Philippines has yet to temper on its foreign policy and external maritime security, the next Philippine president must prepare for a National Territorial Defense Framework

as a strategic option in the post-2022 period. The Armed Forces of the Philippines (AFP) has undergone an overhaul in its modernization program—now placed at 51st among 140 countries in terms of military strength in 2022 and ranked 23rd in Asia,¹ and 26th out of 140 states in the Navy in the annual military strength ranking of Global Fire Power 2021 with 103 total assets overtaking Pakistan and the United Kingdom.² Apparently, there is still room for improvements as the AFP acquires more multi-role fighter assets, surface strikes, missiles, and warfighting frigates and corvettes.

The House of Representatives recently approved House Bill No. 9981 or the “Philippine Maritime Zones Act,” which aims to declare maritime zones in the country to establish the legal bases by which social, economic, commercial, and other activities may be conducted. This measure also provides for the sovereign rights over maritime zones by establishing the Philippines’ exclusive rights to explore and exploit living and nonliving resources found in these zones, in accordance with the UNCLOS and other treaties.³

These are colossal and considerable tasks to beef up the arsenals of the AFP and Philippine Coast Guard (PCG) to achieve a respectable territorial defense strategy to save the archipelagic nation’s undefended features in the West Philippine Sea and other maritime domains from the Philippine Rise to the Sulu Sea. These are also central to the objectives of upgrading the country’s defense maritime technological necessities to meet a sizable deterrence on par with the region’s robust defense posture and spending.

The study aims to understand the challenges and gaps that hinder the civil and maritime sector from attaining a stronger civil maritime framework and achieving a robust maritime security under the mantle of national security as it gives importance to maritime environmental protection in the country’s vast marine resources. It also tackles the importance of multilateralism amid the volatile regional security environment of hegemonic rivalry between China and the United States with the rise of the middle powers to maintain a maritime rules-based order in the Indo-Pacific region.

It also discusses strategic approaches to China’s grey zone strategy, Philippine deterrence and fleet policies, paradigm shift from land-based to maritime strategy, relevance of joint maritime patrol, the acceleration of naval diplomacy, and the self-reliance development program. The study also recommends a unified and stronger messaging for the next president in handling various maritime security

challenges by accelerating the use of strategic communication in the defense and security sector to realize the value of whole-of-government and whole-of-nation approaches. Lastly, it is expected that the paper will discuss the role of the Philippines in the newly-constructed free and open Indo-Pacific region as it paves a way to allow gains of what the emerging Southeast Asian archipelagic nation can redound from its engagements with like-minded states and major powers in the region.

Challenges for Attaining a Stronger Civil Maritime Framework

The Philippines, as an archipelago, is constantly faced with myriad forms of maritime threats. Although different kinds and levels of challenges are present at any angle, it still always has an adverse effect on the country's economy and national security. To secure the sovereignty, economy, and overall well-being of Filipinos, the PCG is geared to practice a whole-of-nation approach. In general, the Southeast Asian maritime nation should at all times be secured, and the government should be very proactive to safeguard the country's maritime jurisdiction from any incursions and intrusions by other foreign forces--free from illegal activities, free from any forms of maritime crimes, and free from any marine incidents. It must aspire to achieve abundance in marine resources and maintain a healthy marine ecosystem.

By looking at the government structure of the Philippines, particularly the civil maritime sector, various stakeholders are taking part to perform maritime security functions such as the Philippine National Police-Maritime Group, the Philippine Coast Guard, and the Philippine Navy, which are supported by many councils and committees. By bureaucratic structure alone, the Philippines should have no problems in its maritime security except for the major issues of good governance in the maritime security sector as a whole. There should be a strong maritime security framework that will enhance the monitoring and surveillance capabilities to attain a secured maritime jurisdiction.

Good governance in the joint civil and maritime security sector must coincide with effective legislation and execution of enforced maritime laws. These gaps are pronounced that individual efforts are fostered, but collaborative and comprehensive measures in government bureaucracies are disregarded,

which becomes the culprit for ideal whole-of-government and whole-of-nation approaches. The lack of collaborative culture, the silo behavioural norms, and limited interoperability are reasons for the cacophony of progressive measures in the civil and maritime sector, as seen largely in civil service.

The Philippine Coast Guard has been beefing up its resources. In the human resources department, PCG Commandant Admiral George Ursabia Jr. announced last year that the Command will hire 5,500 personnel. This is one of the Command's steps to address the gaps in an agency mandated with multi-faceted functions. In its Marine Environmental Protection (MEP) role, the PCG has to start by hiring the right people for the job. The human resource department has to hire personnel to fill in the Command's marine environmental function's gaps. While it is now recruiting personnel with multi-faceted expertise, the Command is in dire need of scientists like chemists to administer the laboratory of the Marine Environmental Protection Command (MEPCOM).

While lawyers are dedicated to policymaking, other fields of expertise, such as marine biologists, are crucial in the organization because of the focus to rate the performance of MEPCOM, while a large part of its law enforcement falls to the marine environment. Violators must be prosecuted, particularly those who committed an infraction of the law. Meanwhile, chemists are hired to man the PCG laboratory in collaboration with the Command's lawyers' skills on policymaking to holistically understand the complexity of the marine environment. At the same time, the next step is to make sure that PCG personnel is trained and developed to be specialists in their respective fields. Currently, PCG workers are being assigned to various assignments without specific expertise, which becomes problematic on their scorecard in the performance of their various mandates.

If managed properly, this right action will bridge the gap of PCG personnel becoming more generalists and not just professionals. The Coast Guard's mandate turns out to be more complicated now, and it seriously challenges the Command's expanding members to attain extensive proficiency in all of the Coast Guards' various functions. In 2018 alone, different fields of specialization were introduced in the civil maritime sector. While many questions are not yet resolved on how to execute the new call of duty, it must be carried out to concentrate on new fields of expertise where the Command can eventually hire various specialists.

In essence, to address the gaps of a stronger civil maritime framework and be on par with global standards by becoming the source of inspiration on marine

environmental protection in the region, the PCG needs to develop its large pool of personnel by recruiting qualified personnel workers for the right job. This will be followed by training them to be experts in Marine Environmental Protection. This could be achieved by not reassigning junior officers to a different Command the moment they decided to join the MEPCOM. In this way, they will be honed on the job by their seniors. The pertinent trainings are geared to becoming skilled members of the subject Command. Also, material equipment and hardware are essential in developing the MEPCOM. The Command should request for appropriate budget to develop laboratories in different PCG districts to ensure timely laboratory analyses. Lastly, the development of MEPCOM should be hastened to increase the balance between work and job for its personnel's morale and welfare.

Furthermore, the PCG is mandated to perform maritime search and rescue (SAR) operations, implement maritime law enforcement and maritime safety as protectors of the marine environment that should be knowledgeable of maritime security; and as guardian of the seas committed to saving lives by ensuring safe maritime transport, clearer seas, and secure maritime jurisdiction. The PCG is also tasked to conduct maritime patrol in the West Philippine Sea and Kalayaan Island Group with the Bureau of Fisheries and Aquatic Resources (BFAR). While the PCG and BFAR identify the improvement of government and law enforcement reach as key factors in addressing the domestic fishing crisis through protecting biodiversity and boosting tourism in the country, the two civilian maritime agencies still seek to address huge gaps by proposing the following solutions alongside with their assessment:

Initially, for improving government response through tourism and infrastructure, state development will be mainly focused on making areas with high biodiversity into tourism areas and constructing ports in local communities to improve access to government services through the construction of major ports. Regional tourism with high biodiversity will only be focused on improving the local sustainability of the area and will not mandate the urbanization of these areas. Expectedly, tourism may disrupt certain areas in the marine environment causing fishing communities to be apprehensive of their livelihood. Tourism may also provide alternatives to fishing communities against illegal, unreported, and unregulated (IUU) fishing. But with the help of the civil society and private sector, this chronic marine problem can be countered if people find alternative

work in boosting the country's tourism sector.

The shift towards sustainable tourism will encourage the government to designate areas with high biodiversity as protected areas for certain species of marine life, allowing Local Government Units (LGUs) to repopulate and refill fish stocks in the region just like the Verde Island Passage in Mindoro and sensitive areas around the West Philippine Sea including thousands of marine sanctuaries in the archipelago. Given this, the PCG can increase its operations in zones where the Philippine government will develop port areas to ensure maritime environmental protection by improving government capability to enforce fishing laws and provide livelihood programs while managing its primary role of maritime patrols in our maritime domains.

By improving the law enforcement agencies, PCG and BFAR should focus on three areas: 1) the protection of endangered species, 2) the implementation of fishing restrictions, and 3) the mitigation of IUU fishing and destructive fishing activities (DFPs) in delicate maritime domains. Various proposals should lead to more international cooperation, but domestic improvements must be constantly discussed. At the same time, increased cooperation among law enforcement agencies will threaten the informal livelihood of certain communities that rely on illegal marine wildlife trading. This is also a worthwhile trade-off to prevent the destruction of marine ecosystems and the depletion of fish stocks in the region. Besides, the existence of alternatives to compensate for the affected stakeholders should be proposed.

Improved maritime law enforcement in the country should build trust within the region to ensure that Southeast Asian states can manage their broad maritime security issues in their respective borders and may adopt best practices from other countries. Moreover, improved maritime law enforcement will prevent the degradation of the fishing environment by IUU fishing and DFPs by providing fishing communities with alternative livelihood and allowing civil maritime law enforcement agencies to respond faster to reported maritime criminal cases.

The PCG under its mandates by virtue of RA 9993,⁴ Section 3, on Powers and Functions subpar (n) calls for the enforcement of laws and to promulgate and administer rules and regulations for the protection of marine environment and resources from offshore sources of pollution within the maritime jurisdiction of the Philippines; and subpar (o) to develop oil spill response, and containment and recovery capabilities against ship-based pollution. Following these provisions, the

Command vied to strengthen its laws in the domestic setting and had been quite successful so far as the environmental mandates are concerned.

As such, a well-equipped Coast Guard must not rest its laurels and should look forward towards and beyond the horizon. This should answer the question of how the PCG can meet global standards and become an inspiration in the Association of Southeast Asian Nations (ASEAN) region while the country's white fleet is still considered as the most challenged organization in civil maritime security. Despite being the first country in the continent to establish its coastguard, the PCG is lagging compared with regional counterparts on fleet assets and technological advancements, including robust policy and strategy development that would help the organization navigate through the challenges of times and to become responsive in the face of rapid geopolitical changes, maritime jurisdictional challenges, and marine environmental threats.

However, the PCG can identify areas where it can find equal footing with other coast guard agencies in the region. The white fleet had never been left out in the maritime strategy games, as it tries to carve out its own niche by creating its own Coast Guard Attaché Office in the International Maritime Organization in London. It has also seconded officers in the Regional Cooperation Agreement on Combating Piracy and Armed Robbery against Ships in Asia (ReCAAP) and International Fusion Center in Singapore. All of these may be small steps that would eventually become a full journey for the organization.

For the PCG to become a leader in environmental protection in terms of regional cooperation and adopting multilateralism, it must explore international conventions and instrumentalities against the economic clout and military might of powerful states to use its influence against them. Hence, it must explore civil maritime frameworks and recommendations:

1. Pursuant to fostering bilateral, minilateral, and multilateral cooperation among other coastguard agencies in the region and around the world, the PCG must initiate diplomatic and civil maritime programs to prevent miscalculations on the use of force and unnecessary armed conflicts in grey zone areas.

2. The PCG must actively engage in multilateral forums and abide by international law. It is recognized that the Philippines is a member of the

International Seabed Authority (ISA) that is tasked to organize, regulate, and control all mineral related activities in the international seabed areas of the world. The PCG has recently posted qualified officers to undergo policy development training to help the organization formulate policies to protect our vast maritime jurisdiction, including the continental shelf.

3. The PCG must thoroughly study the winning landmark case of the Philippines at the Permanent Court of Arbitration to consistently address policy gaps in maritime law enforcement. This will also help the Command formulate and establish regional fishing cooperation agreements with other claimant states within our grey zone areas. As long as the Philippine government determines a consistent and stouter narrative on our historical fishing rights in the contested West Philippine Sea and other legitimate maritime jurisdictions of the country, the civil maritime sector will have a stronger stance to protect our sovereignty rights and maritime interests.

4. The PCG must take the lead in crafting policies on maritime jurisdiction for the prevention, control, and penalization of would-be violators in terms of ship to sea pollution and other substances within its Exclusive Economic Zone (EEZ) and continental shelf.

5. As a lead maritime agency in the country tasked to perform blue water functions in our maritime territorial jurisdiction, the PCG should maintain a strong presence in our maritime domains by crafting its own asset deployment plan, identifying possible forward operating bases, and integrating the surveillance systems to strengthen the country's maritime domain awareness capabilities.

6. The PCG must delegate other domestic problems such as illegal fishing activities and management of the Marine Protected Areas (MPAs) to BFAR; maritime peace and order and local rescue operations to the Philippine National Police (PNP)-Maritime Group; while the coastal Local Government Units (LGUs) should strengthen its own search-and-rescue (SAR) capability given the allotted budget to LGUs on local risk reduction and response programs.

Robust Civil Maritime Security Towards the Attainment of National Security

The identification of security threats on the maritime territory becomes a primordial and patrimonial duty that is vital for achieving a robust national security. By safeguarding the country's national interest and security, it protects the external maritime defense from crimes, challenges, and threats that will jeopardize the safety of civilians and national security as a whole. Domestic and regional insecurities breed transnational crimes on waterways that disrupt the peace and development of the state. By contradiction, government intervention through effective governance and public service administration suppresses poverty, opening the flow of stability, growth, and development to the nation and the region.

As the Philippines transforms from an archipelagic nation to a maritime power, it has to invest heavily in naval and maritime assets to strengthen and establish achievable and effective national maritime security. The country's vast maritime territory and jurisdiction offer a lot of opportunities. The developing country has an untapped blue water economy to drive the entire maritime industry services with wide-ranging economic activities--from shipbuilding and ports to fisheries and aquaculture, to recreational activities and tourism, to offshore energy exploration and extraction, and a large number of related economic services while prioritizing patrimonial duty of sovereignty patrol.

By combining these gargantuan economic security activities, the Philippines can gain from renewed maritime industries, transforming it into an essential pillar for the national economy by creating jobs, attracting foreign direct investments, generating marine support industries, and strengthening of foreign direct investments of local purchasing power. By tapping this vast potential, the Philippines can carve its own position in the world economy to attain a future-proof national economy. This can bring a lot of opportunities for the nation, such as maritime technological advancements and naval development, to achieve a respectable defense posture on the road to a maritime power in the region.

In order to achieve this elusive dream, the Philippines must recognize the need for maritime governance strategy and the development of national maritime security policies. Policymaking and law enforcement are essential in attaining a sustainable blue water economy in the country. As long as the national government

and its human agencies can tap the full potential of exploration, exploitation, and management of natural resources at oceans, rivers, and seas, it will redound to the country's economic security. And more importantly, the Philippines must have to secure the nation's sovereignty.

Multilateralism and Strategic Communication for the Next President

Multilateralism is more welcomed than exclusive bilateralism in maritime security's extent and wide-ranging scope. While the Philippines' civil and naval maritime security sectors complement many high-mid-low levels of national, regional, and global security issues--its porous borders and strategic geographical location are relatively primordial in improving the country's maritime security. Given the number of maritime insecurities that the Philippines encounters, it is necessary to comprehend the context of its maritime insecurities.

The Philippines' diplomatic and economic rapprochements with Beijing through bilateralism certainly missed out on the golden opportunity to spread a unified narrative to the international community and against its maritime rival in the South China Sea despite the strong support for its arbitral ruling awarded at The Hague. The soft pedal and meek policy in the West Philippine Sea saw the continuous incursions and expansions of China's coast guard and maritime militia. This brings out the flaws of inconsistency in foreign policy and spineless messaging of the government using a whole-of-government approach in preserving its national sovereignty and territorial integrity in the contested waterways to secure its maritime domains.

While operating in a very dynamic, fluid, and adaptable environment, the armed forces, like any other organization, should cope with the changing times. The Philippines' military must adjust to the fast-paced changing security environment and be ahead of the government's adversaries. The AFP must attune its actions and decisions to strategies and operational tactics that allow it to remain focused to sustain victory in the delivery of its respective mandates. More so, as today's public are composed of varying stakeholders with interests, needs, and expectations that are increasingly demanding while gaining the trust and support that becomes a challenge itself. This is why there is a strong need to gain influence through the power of Strategic Communication (StratCom).

The AFP continues to face such challenges, and these can be significantly addressed through its problem on Strategic Communications. By integrating the various StratCom strategies of the major services into a Joint AFP Strategic Communication Strategy, the goal of institutionalization of StratCom lies not only as a policy pronouncement but as advocacy with supporting structures or identification of organizational and leadership StratCom advocates that are measurably supportive of the general headquarters and major services levels in hierarchic organizations such as the armed forces, civil maritime sector, and the executive branch of the government.

In this manner, the influence becomes essential and fundamental in engaging social interactions that are exerted through communication, reception, comprehension, and acceptance of delivered messages. To influence a divisive nation, leaders including the next Philippine president, should have a strong ability to deliver and manage communications that can be visibly seen as the act of sharing, sending, and receiving messages. It is also anything that can be interpreted as a symbol of actions, words, and images. It affects the behaviors and perceptions of people while retaining the freedom of action, which is incredibly challenging, especially if the nation is predisposed with different distorted values and maritime rules-based norms.

Therefore, StratCom is not just about the level of communication. The use of the keyword “strategic” is a word that implies communicating with a strategy in the pursuit of the purpose that will affect the perceptions and analyzing target audiences through the use of themes and messages (DND, StratCom Trainers Training Manual, 2013). In modern warfare, the battle of opinion became the new way of spreading ideologies and belief systems due to the expanding information environment and technology’s revolution (DND, StratCom Information Management Systems Report, 2013). Thus, this strategy is described as knowing and using one’s strengths and exploiting other enemy’s weaknesses (DND, StratCom Information Management Systems Report, 2013).

Strategic communications became the Department of Defense’s (DND) primary mechanism in coordination with and among bureaus and their civilian counterparts. This includes the following operations such as: liaising with government agencies, LGUs, LGAs, NGOs and international organizations, and other stakeholders; conducting joint planning at the strategic and operational level; providing continuous area and environmental assessment at the local or tactical

view; overseeing the conduct of civil related activities by defense and security units; ensuring the cooperative operation of the community and their leaders in all aspects; ensuring a timely and smooth transition of civilian responsibilities to the stakeholders; and providing advice to the Campaign Commander (DND, StratCom Trainers Training Manual, 2013) that further supports the National Security Strategy.

For the defense and security sector, strategic communication, although being loosely adopted and used by the armed forces, is not well-grounded. At the national level, there is no document grounding a unified strategic communication plan or document by which subsequent agencies of the government can ground their respective StratCom. The government's acknowledgment of the importance of StratCom can be seen through the establishment of the Presidential Communications Development and Strategic Planning Office, which, apart from serving as the President's chief message-crafting body, is also mandated to provide strategic communication leadership and support to the executive branch, and to lead the strategic communication of government through the formulation and enforcement of a National Communications Policy.

The Presidential Communications Operations Office (PCOO) under the Office of the President released Memorandum Circular No. 001 series of 2018 with the subject: Establishing a National Communications Policy that Streamlines the Communications Process of the Executive Branch and Creating the Comprehensive Communications Committee, which includes a directive for all departments and agencies to coordinate with the PCOO in adopting a national strategic communications plan that would ensure that all activities, conduct, and actions of the departments are consistent and well-coordinated.

Accordingly, various government departments responded to the said directive, while other departments have long started their strategic communication even prior to the issuance of the directive from the PCOO. For one, the Department of the Interior and Local Government (DILG) emplaced its Strategic Communications Toolkit, which guides both its employees and officers on the processes and strategies of planning and implementing communication programs. At the same time, the toolkit is an instrument for the defense department to effectively and strategically communicate the right messages to its different stakeholders and influence them to join in the drive for transparency, accountability, performance, and citizen participation.

Other government agencies have also taken active cognizance of the guidance from the President's Office and ensured their abidance through the development of various forms to establish and ground their respective StratCom strategies. For the Department of National Defense, the publication in 2014 of the Strategic Communication Handbook sets an overarching basis for analyzing, planning, integrating, implementing and assessing strategic communication and defines the organization through which StratCom is operationalized at the DND Proper and its bureaus, among others.

As one of the bureaus of the DND, the AFP can anchor its internal StratCom from the guidance set by higher authorities. Only the Philippine Navy has a Strategic Communications Plan Handbook and recently published its second edition among the major services. The handbook sought to provide all naval personnel a clear, straightforward, and shared knowledge on the aspect of strategic communication in terms of its role and functions within the Navy as an organization. It also discussed the StratCom concept and the processes involved in creating a sound StratCom Plan. The Philippine Navy Strategic Communication Plan 1 was released in 2010.

The second edition was subsequently published acknowledging the various changes in the security landscape from the national to the internal AFP development efforts, which includes the following: publication of the PN Active Archipelagic Defense Strategy in 2013; the publication of the National Military Strategy in 2014; the 2016 culmination of the Internal, Peace and Security Plan Bayanihan and the consequent implementation of Development Support and Security Plan Kapayapaan and the National Security Policy 2017-2022; the development of the PN Naval Operating Concept that is relative to the PN Sail Plan 2020 and its alignment to the "AFP Transformation Roadmap 2028" in 2014; the development of the PN Sail Plan Strategic Communication Plan last 2015, and the launching of the PN Sail Plan Book 2 during the last quarter of 2016.

Complementing the PN StratCom Handbook is the PN's StratCom Plan 2021-2023, recently approved by the Philippine Navy's Flag Officer in Command, Vice Admiral Adeluis Bordado, on 10 January 2021, which further gives short-term guidance on the PN's StratCom, an indication of the Navy's acknowledgment of the role of StratCom in the furtherance of PN's success in the achievement of its mandate. However, despite the lack of StratCom handbooks from the Philippine Army and Philippine Air Force, similar to what the Philippine Navy has, these

major services still adhere to and adopt StratCom that are grounded to their respective roadmaps, including the Army Transformation Roadmap and the Philippine Air Force Flight Plan 2028.

The Philippines' Strategic Role in the Indo-Pacific Region

Amid the intensified hegemonic rivalry between China and the United States in the Indo-Pacific geographical space, the Philippines is dwarfed by superpowers but rises as a middle power in this volatile regional security environment. It is therefore advised that Manila must craft a proactive policy if it aspires to maximize a relevant position in this regional security complex by continuously diversifying its alliances and strategic partnerships. Although the American-led Indo-Pacific region has been gaining significant traction in international affairs lately, the concept has largely captivated the fulcrum of the balance of power in a rough transition, seen in the current theatrical stage of global geopolitics, as the Philippines strives to show high potential in advancing its national interest in this vast geographical domain.

As the world leans towards multipolarity, geopolitical actors have played the game conscientiously, creating the multiplexity of the contentious region. Apparently, the Indo-Pacific is one of the world's sea lines of communications, possessing one-third flow of trade and energy passing through the region that spans from the Indian Ocean to the Pacific Ocean. Merging the natural resource flows and global supply chains from the continents of Asia to Australia, Oceania to America, thus, the Indo-Pacific region is considerably critical while hosting maritime grey zones and power competition of great powers.

Naval powers swarm in the Indo-Pacific region due to its strategic importance and wide network. Given the Indo-Pacific region's novelty as a conceptual idea which can be classified as an old and new geographical space, the Indo-Pacific rises from the remnants of the Asia-Pacific, giving prominence to emerging major powers like India and ASEAN and traditional American partners like Japan and Australia to expand its geopolitical clout. Formerly, the British Empire had envisioned this maritime territory to become one singular strategic region, and now with the US as the heir of the Anglo-Saxon powers, it has maintained to achieve that unilinear vision and mission. Big population and landmass

recreate hegemony of naval powers in the contested Indo-Pacific region, making it an 'Asian maritime super-region.' American rivals can view the expansion of the regional complex as a conceptual region to contain China and Russia in the theatrical stage of global politics in naval strategy. The US has outwitted the two great powers a supreme aerial-naval power in the last world war. Although, China and India-Asia's two competing giants-will remain continental powers within the geographical space of the Indo-Pacific, despite their accelerated and increasing maritime assets.

Varied interpretations on the significant presence of the Indo-Pacific region remain idealistic and realistic as key states and policy elites dwell on the epistemological and ontological importance of the region in world affairs. As Washington cements its presents in the newly-concocted Indo-Pacific rim and stages a well-rehearsed command by renaming the US Pacific Command to the Indo-Pacific Command, the world's leading naval power is adamant about pursuing a maritime rules-based order under a free and open region. Although it was former Japanese Prime Minister Shinzo Abe who inducted the porous region into an 'open and free' and inclusive Indo-Pacific, his clever proposition called for a zone of seas of prosperity that will redound Tokyo's interest its allies. As the third largest economy in the world, Japan preferably favors open trade governed by the rule of law and the free-market economy reflected in the confluence of two seas.

While India supports the foundation of the Indo-Pacific, it also coincides with its aspirations under the renamed Act East Policy, being a rival of China in many developmental projects and military aid in South Asia and Southeast Asia. India's inclusion in the Quadrilateral Dialogue (QUAD) with like-minded states-the US, Japan, and Australia-illustrated its affirmative show of support for the universal principle of freedom of navigation and overflight to counter China's massive reclamation and militarization in the contested South China Sea.

The ASEAN will play a crucial role in the Indo-Pacific as it becomes the heart of the region with rising middle powers in the offing and its backyard to become the battleground for apparent hegemonic rivalry. Member states of the ASEAN, like the Philippines, have been the recipient of power competition between the US and China that apparently affects the region's maritime cooperation, arms race, sustainable development, and economy. While Manila is a founding member of

the ASEAN, it does have major stakes in the maritime and territorial dispute with Beijing in the South China Sea but has won a legitimate arbitral award; it favors the international community's support. Furthermore, Manila remains to be the longest treaty ally of Washington regardless of who wins in the May 9 presidential elections despite decoupling incidents from the US. Economically, Tokyo becomes the top investor in the Philippines' infrastructure program despite the failure of Beijing to consolidate its promise to support the government's 'Build, Build, Build' program, while Manila sets a complex juncture of its geographical importance in the Indo-Pacific region.

The Philippines' unique strategic location in the Indo-Pacific region forms the outer edge of maritime Southeast Asia and serves as a gateway between the Pacific and the rest of Asia. The archipelagic state's proximity to Sinitic powers like China and Japan can provide access to vital sea routes for commerce. This is seen in the economic trajectory of Manila with Beijing that expanded bilateral trade relations of the two countries in 2019, affecting the economic interdependence given China's influence on the Philippines' foreign policy that compromised Manila's national interest. And while the Philippines is a key claimant in the South China Sea, Beijing has the upper hand in the contested waterways as China controls the militarized artificial islands in the Philippines' exclusive economic zone.

The Philippines, as a rising middle power, gives weight to its special role in the Indo-Pacific region. As a former 'sick man' of Asia and by recently becoming one of the most resilient economies in the region, Manila can use this security opportunity to engage in multilateralism and foster its national economic interest in the booming region. Manila can play a critical role in forwarding US strategic objectives in the Indo-Pacific while robustly engaging in trade with China. Both the US and China see the importance and relevance of the Philippines from their own respective national interests. Therefore, it is necessary for the Philippines to engage wisely with the two competing powers in the world.

Recommendations

While Manila recuperates from failed diplomatic and economic rapprochements with Beijing, the next administration must consider the following recommendations to strengthen the civil and maritime security of the Philippines.

1. Strategic approaches to China's grey zone strategy

China considers Asia as its home base and the contested region within the gamut of its historic sphere of influence in spite of the widening US-led conceptual and geopolitical clout in the Indo-Pacific region. Under President Xi Jinping's leadership mantle, regaining supremacy in the world's largest continent is the foremost component of his grand vision and confidence-building measures in Asia, as well as by strengthening its global strategic multilateral partnerships with emerging powers even with the impending global security threat of the three-year-old coronavirus pandemic to date.

It could also be perceived that Xi Jinping is the center of gravity of China's complex grey zone strategy, which significantly becomes Beijing's core interest, and declaring the South China Sea as a core interest is a prerogative of the Communist Party of China (CPC). The centrality of the party as a key element in attaining the Chinese Dream is where all crucial policies and strategies of China emanate from. Overall, Beijing has received a mixed reaction from the international community as it founded an alternative international financial and lending institution that grants large-scale loans in its contentious Asian Infrastructure Investment Bank (AIIB) mounted by its flagship program cascaded through the Belt Road Initiative (BRI), dubbed as an economic grey zone by its rivals.

For China's strategic competitor, when the United States commemorated the decade-old September 11 terrorist attack in 2021, it restored its glance on homeland security. Moreover, the challenged superpower once again caught the world's attention when President Joe Biden co-founded a trilateral security pact with Australia and the United Kingdom, known as the AUKUS to protect its external defense and regional interest in the Indo-Pacific region. The 15 September 2021 AUKUS agreement gives Canberra preferential treatment to acquire nuclear-powered submarines from its Anglo-Saxon allies. Nine days after, Washington extended its arms with allies from Australia, India, and Japan as it hosted the QUAD aimed at ensuring commitment to safeguarding maritime rules-based norms in the Indo-Pacific region to pacify China's aggressive militarization.

Meanwhile, the Philippines acknowledges that China's intentions in the South China Sea are not benign. To effectively counter it, the Philippine Navy must maintain a naval operational base order to continue naval operations across the archipelago, notably in the West Philippine Sea and the Philippine Rise, where a naval presence is required regularly. The integrated requirements for logistics,

maintenance and repair, basing and human resource production, and doctrines are significant as they become a centrifugal force in naval operations. While warships may be deployed for extended periods, it still requires resupply of gasoline, lubricants, explosive ordnance, rations, replacement parts for equipment, and other supplies regularly as required in establishing forward operating bases for naval operations.

2. Philippine deterrence and fleet policies

The drive of the armed forces of a small state is not to wage war but to avert it. There is a noteworthy difference even if the task of war prevention infers a credible ability to fight, for small states cannot hope to achieve victory in war in a strictly military sense. Instead, the tenacity of the war is to end it on acceptable terms. Middle powers' armed forces contribute to averting war first by maintaining the state's sovereignty and by enforcing national jurisdiction in peacetime in an efficient and credible manner. The military is an instrument of the state in crisis management and during the peacetime-wartime spectrum, not least for their deterrent effect on the opposition. Deterrence works when it outlays armed aggression in the mind of a potential aggressor and becomes larger than the benefits of going to war, and in the end, peace may prevail.

In enhancing transparency and accountability while pursuing opportunities for stable security structures, the AFP should improve its human, organizational, and information capital. It shall build a culture of jointness and establish integrated secure communications and information system to institutionalize integrated joint logistics support systems and develop a professional and highly motivated regular and reserve force. Highly competent and motivated professionals should spearhead the crafting of sound and appropriate maritime doctrines leading to the responsive naval reserve forces; and the same professionals who should be building the corps of the same force.

Near-sighted, a naval strategy that aims to fight an asymmetric conflict is the object of naval warfare where competition to control the Sea Lines of Communications (SLOCs) seems apparent, including an adversary's commercial and economic interests. It strategically includes the control of maritime communications, whether for commercial or military purposes. The primordial object of the fleet is to secure these SLOCs and put the enemy fleet out of action. More so, the size of one's fleet is not much of a factor.

A small naval force is unlikely to win a major fleet engagement, but it still could achieve significant results through minor naval actions, such as attacks on sea lanes and coastal raids. Victory at sea is dependent on the relative strength of one's own fleet and the exploitation of one's positions such as naval bases, commercial, and zone areas where maritime trade routes converge. The Navy acts as the guardian of our seas by providing naval defense and maritime security for the archipelagic nation in relation to the other major services of the AFP. While the Navy's mission as a force provider to the Unified Commands is to organize, train, equip, maintain, develop, and deploy naval forces for rapid and sustained naval and maritime operations in support of the AFP mission.

A large modern navy may include an array of naval assets such as ships, submarines, aircraft, and various types of support, supply, and repair ships as well as maintain naval bases and ports, and an enormous organization for the management and maintenance of these assets. The nation's primary sources of military power across the seas are the navy ships claiming two chief functions: sea control and area denial. Naval power includes a nation's entire organization for sea warfare that may comprise vessels, personnel, and shore facilities.

3. Paradigm shift from inward-looking to outward-looking military strategy

AFP's mentality of an inward-looking protection of the state depended on external defense from former colonizers. The absence of the National Security Policy (NSP) that outlines the country's national vision and National Security Strategy (NSS) that imprints the president's dent on security and development came out only in 2018. The National Defense Strategy (NDS) maps the defense's plans, and the National Military Strategy (NMS) that aims at achieving a robust mission of protecting the nation was published when Duterte came into power.

From 2000-2011, the Philippines' armed forces relied only upon the Defense Planning Guidance (DPG) for its security programming and other executive pronouncements that lacked higher and strategic concepts, making the Philippines' national security very military-centric. The presence and issuance of the 2011 NSP aimed at providing for the strategic direction of the country's national security that lost essential elements to achieving the wholeness of the NSP in terms of strategic operability (Flores, 2021).

The constructed texts of the NSP, NSS, NDS, and NMS within the timeframe of 2016 to 2020 improved the country's strategic culture that has been revitalized

in conduit to providing the necessary compass in the country's security trajectory, armed with a realistic vision that would take an intergenerational time before the desired results can be realized.

The Defense Program Guidance (DPG) 2022-2027 recommends the resource directions for developing the 2022 budget proposal for the term 2022-2027. Accordingly, resource planning should consider new priority programs and proposals, one of which is the method of life cycle costing for all programs. The DPG stated that "the method of life cycle costing shall be required from all programs and shall identify systematic assessment to include cost estimates from inception to disposal of current and new equipment and projects to provide a basis for sound decision-making and optimize operational cost."

The emerging maritime threats from domestic, foreign, and natural milieus have been in the country. Self-resiliency in developing our defense capability may be the solution to the recurring deficiency for our aging surface assets, which were experienced by other ASEAN navies. Replacing current assets that were used for more than 20 years is a huge challenge constrained by the defense budget. (Haliza Zahari & Mustakim, 2016).

4. Relevance of joint maritime patrol

The Sulu and Sulawesi Seas link the Pacific and Indian Oceans and are importantly considered as Sea Lines of Communications (SLOCs). This is where the Philippines, Malaysia, and Indonesia share sea boundaries which are well-known for their economic and sociological importance. The maritime security of the Sulu Sea is of great importance for the international seafaring community and has raised some concerns over the safety and security in the waterways. As a result, the Joint Maritime Patrol in the form of Trilateral Maritime Patrol (TMP) was organized under the goodwill of all coastal states' cooperation following multiple meetings and discussions or multilateralism.

The complexity of the maritime security concerns and huge prospects of the Sulu Sea for multilateral collaboration and coordination are the main points that cannot be matched by any sea region. The Sulu Sea was seen to be a domain to allow cross-border movement of millions of people as well as international shipping. Every year, it is believed that more than 100,000 boats sail through the Sulu Sea with more than 55 million metric tons of goods and 18 million people.

Also known as the Tri-border Sea Area (TBSA), the Sulu and Sulawesi Seas play

a key role in the global economy despite being overlooked by most government entities. It is because, one way or another, all coastal states will eventually have to deal with issues of sovereignty and administration of the TBSA. At a glance, criminal activities at sea have turned out to be more complicated, which implies that maritime security concerns might endanger every coastal state and its territorial waters, often classified as maritime piracy.

Though it encompasses a large amount of territory, the Sulu Sea is particularly challenging for the region. As a result of porous borders and the lack of maritime governance over the area, TBSA has served as a base for transnational crimes and terrorist threats, all of which compound the social, economic, and ethnic turmoil plaguing the whole region.

The 1982 UNCLOS article, entitled “The International Code of Sea Laws,” provided a definition that lists various acts of violence illegal, such as capping, arresting, or destroying a private crew or passenger boats at high seas in a place outside the jurisdiction of the United Nations, in relation to the hijacking of the crew of a ship to raise money is concentrated in this case.

5. Acceleration of naval diplomacy

Philippine maritime security is widely pronounced in the country’s coded National Security Policy and National Security Strategy. As a matter of policy, the Philippines renounces war as an instrument of national policy (Section II 1987 Philippine Constitution, 1987). This does not mean that the military will not engage in actions to ensure the country’s territorial defense. In order to maintain its operational readiness to meet this objective, the AFP, through its major services, participates in military exercises with allies.

Acquisition of warships and navies is frequently referred to as symbols of a state’s sovereignty and power that provide a defensive function. It effectively serves as symbolic for supportive and coercive functions. In response, continued use of diplomacy not only achieves diplomatic and political interests but is equally important for averting losses in furtherance of an international dispute that has consequently perpetuated the concept of naval diplomacy and gunboat diplomacy (Ghosh, 2001).

On the operational level, naval exercises enable the operating forces an opportunity to have seamless integration with other naval forces during combined operations, not just in preparation for wartime operations but particularly during

such contingencies involving humanitarian assistance and disaster relief. Despite disputes, nations still come together to achieve collective goals and assist neighbors in times of catastrophes and crises, even transnational threats like pandemic and human-induced terrorism.

As part of the country's naval diplomacy, the Philippine Navy annually participates in a number of multilateral naval exercises. Annually, the PN spends considerable resources to support its participation in various local and foreign naval exercises. These include man-hours spent in planning conferences and logistics and monetary resources to cover training expenses, port services, mobility, medical, subsistence allowances, communications, ammunition, and other operational requirements.

6. Self-Reliant defense posture

The establishment of the Philippine defense self-reliance policy in the Philippines started with the signing of Presidential Decree (PD) No. 415 on 19 March 1974, creating the Self-Reliant Defense Posture (SRDP) Program. This is in response to the growing Muslim secessionist movement in Mindanao and the US' unwillingness to help in the country's internal problems. The SRDP Program aimed to develop the country's capability and self-sufficiency in the production of defense materials to sustain the requirements of the armed forces in partnership with the private sector. Its main thrust is to achieve greater flexibility and success in pursuing independent foreign policy, reduce if not eliminate chronic dependency on foreign sources for basic defense needs, boost scientific and technological capabilities, spur commercial and industrial activities, conserve and generate foreign exchange, and provide gainful employment to the people.

In the case of South Korea, the defense self-reliance policy started when the Republic of Korea (ROK) learned about the withdrawal of US troops from the Korean peninsula following the Nixon Doctrine in 1969. As a result, the former ROK President Park Chung-hee ordered the military to create an independent military strategy to include force development to achieve an independent defense posture. The Korean military came up with a plan similar to the SRDP of the Philippines. The difference is that the approach is more holistic and self-imposed.

The ROK's self-reliant defense policy embeds three elements. First, it entails independently establishing defense-related policy and strategy in terms of will. This also includes conceptualizing and concretizing various visions pertaining

to a nation's defense's objective, policy, and strategy. Second, the concept implies having the ability to protect one's nation with its own military power. This extends to procuring manpower, equipment, and funds for defense with its own power. Third, it incorporates the ability to manage and exert military capabilities based on one's own will. The ROK concept of defense self-reliance involved three critical factors at the onset of the program – political will, defense strategy, and funding.

Generally, the countries' experiences of the ill effects of foreign and natural intervention increased their need for a self-reliant defense capability, especially maritime assets. It is hoped to be achieved by limiting the nation's dependence on allies and outside support for the defense requirements. This self-reliant defense capability relies primarily on developing in-country manufacturing capabilities and utilizing to the fullest its natural resources as the source of the country's defense needs in the SRDP Program.

Relatedly, defense self-reliance development auspiciously brings economic development and success, unlike other nations which have initiated projects of their own SRDP versions that resulted in successful undertakings. Sweden is one of the countries which ventured into this different scheme. Its items, especially aircraft, have earned a reputation as it attempts to move on to manufacturing civilian aircraft. Brazil is slowly carving its niche in the growing missile industry. Other capable states like Argentina, India, Israel, Pakistan, South Africa, and Taiwan are into the manufacture of nuclear weapons. Small countries have now slowly ventured into this field formerly dominated by superpowers.

The SRDP program must be responsive in its main objective, which is to develop a local defense industry. However, the current status of SRDP related projects displays a slow development in local defense industries. The Government Arsenal still uses its obsolete technology in the production of small arms ammunition and is not able to produce small arms for the AFP and PNP. In 2019, the Philippine Aerospace Development Corporation almost reached its toll when it was assessed to have failed in its objectives. As a result, it was transferred under the Department of National Defense in October 2019. The need for AFP Modernization indicates that the Philippines' local defense industry is not yet developed. In the past five decades, it has been a failure in the SRDP implementation of the defense and security sector.

If not properly addressed, the SRDP program will remain futile in its objective, resulting in "overdependence" from major powers that would restrict the

Philippines from pursuing robust foreign policies. Over-dependence provides the opportunity for the exporting country to control the importing country. This could adversely affect the integrity of the importing country by projecting an image of a weak state that suggests economic and military instability. As a result, the country's peace and order will stagnate, thereby discouraging foreign investors.

Countries that venture into the defense industry greatly appreciate the local production of defense materials. This allows them to develop solutions to address their defense capability shortfalls and improve their economy by engaging in defense-related businesses with allied countries. The Philippines is among the first countries in Southeast Asia to develop its local defense industry. The approval of Commonwealth Act 138, also known as the Flag Law by President Manuel L Quezon in 1938, paved the way for the approval of the Self-Reliant Defense Posture (SRDP) program in 1954. This gave birth to the development of the Government Arsenal and other local defense industries to cater to the needs of the AFP and the Philippine National Police.

In 1974, Presidential Decree 415 was approved by transferring the Implementation of the SRDP program under the DND. In 1987, the new constitution provisions for the legal basis of the SRDP program. An attempt to revitalize the SRDP was made in 2001 to augment the AFP Modernization Program. Proposed bills were made in 2010 and 2018. After almost 50 years, the Philippines still rely on other countries when it comes to defense capability development.

Data show that from the 145 projects in the first and second horizons of the AFP Modernization Program, 137 are on Capability, Materiel, and Technology Development (CMTD). Moreover, some of the projects are related to the acquisition of small arms, which should have been a well-developed local industry by now. Following this trend and realizing the necessity of Integrated Logistics support on the items acquired from abroad, The AFP still seeks help from other countries, thereby missing the essence of buying sophisticated equipment in the first place that would align with its defense strategies.

A study made on the Defense Acquisition System of the AFP Modernization Program that found out there is a need to enhance the SRDP to acquire defense capability. The importance of SRDP recommends solutions for improvement by citing best practices of other countries. However, the need to enhance and how

other countries enhance their programs must be properly examined. Although these are equally important studies, it is also critical to know the factors affecting the implementation of the SRDP program by the DND in its local setting. This could give us a better perspective on how to improve the SRDP program implementation by the DND towards a developed local defense industry that affects the civil and maritime security of the country.

Conclusion

Shaping the potential of the Philippine external defense architecture can provide a clearer and long-term maritime deterrent plan for the country's civil and maritime security. As the coast guard and the military build mobile coastal defense batteries, armed with long-range anti-ship missiles and covered by an integrated air defense shield, it brings confidence for the Philippines that have experienced maritime insecurities for centuries. This is also one of the main reasons why the AFP recently bought the Brahmos missiles from India and planned to invest in submarines—having known that the South China Sea has proven oil reserves of seven billion barrels and an estimated 900 trillion cubic feet of natural gas. With a potentially huge bounty at hand, the risk of conflict in the contested waterways may significantly occur. As long as the civil and maritime security sector recognizes the importance of freedom of navigation operations in the region, maritime-rules based norms will prevail.

The security challenges of the Philippines are faced with ever-growing new and emerging technologies. In support of national interests, the Navy and Coast Guard maintain sovereignty patrols on the country's maritime domains, ensuring a surface force to meet the current missions and long-term obligations, including the safeguard of sea control and denial, projecting power, maintaining maritime security, and also performing functions to support mission other than war. This means that capability development has been an essential issue as it indicates the readiness of the country is facing threats—a critical instrument in the survival of a nation in times of uncertainty. Currently, the Philippine Fleet has 117 surface vessels consisting of Frigates, Corvettes, Offshore Patrol Vessels, Coastal Patrol Craft, Landing Platform Dock, Landing Ship Vessel, and Landing Ship Tank.

In the process of developing a credible posture for the Navy, the commissioning

and decommissioning of ships is a customary practice, with the gradual introduction of new assets to the active service and the banishment of outdated assets in its serviceable life. As a practice, the service life is the lifecycle of a product (infrastructure, buildings, industrial equipment, and vehicles) from manufacturing to end-of-life processing, including reuse and recycling. It has been a practice in the Navy to prolong the service life of ships to sustain the required number of surface assets on the ground to comply with the requirements of the armed forces. The increasing complexity of capital assets is a factor that affects the maintenance management of the Philippine Fleet for its surface assets.

¹ Global Firepower Report (GFP) 2022. World's most powerful militaries. See the ranking at https://www.globalfirepower.com/#google_vignette

² Ibid.

³ Neil Arwin Mercado. House approves bill declaring PH maritime zones. *Philippine Daily Inquirer*. <https://newsinfo.inquirer.net/1524516/house-approves-bill-declaring-ph-maritime-zones>.

⁴ An Act Establishing the Philippines Coast Guard as an Armed and Uniformed Service Attaches to the Department of Transportation and Communications, thereby replacing Republic Act No. 5173, as amended, for other purposes at https://lawphil.net/statutes/repacts/ra2010/ra_9993_2010.html.

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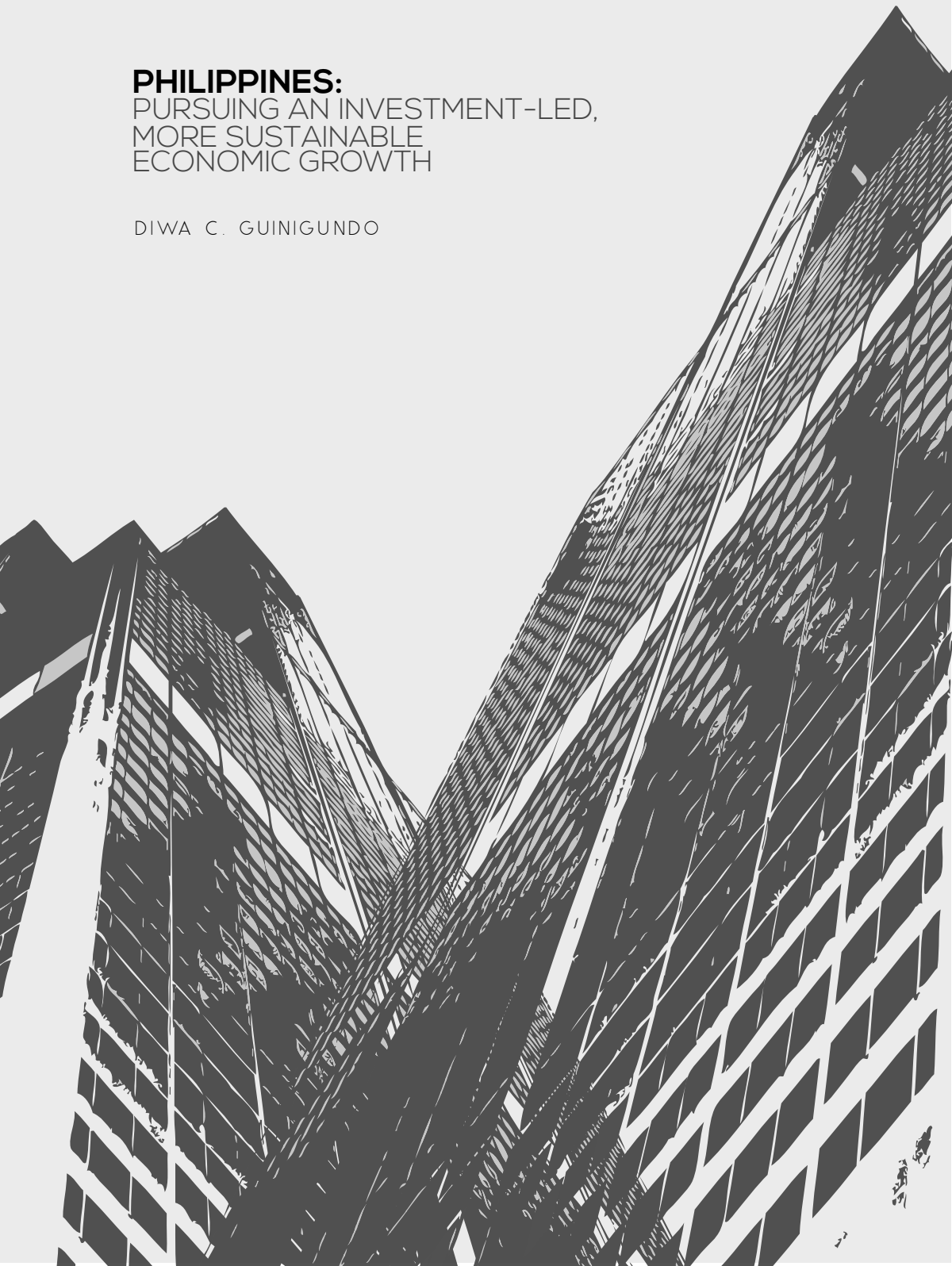
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1987 Philippine Constitution.

PHILIPPINES:
PURSUING AN INVESTMENT-LED,
MORE SUSTAINABLE
ECONOMIC GROWTH

DIWA C. GUINIGUNDO



PHILIPPINES: PURSUING AN INVESTMENT-LED, MORE SUSTAINABLE ECONOMIC GROWTH

DIWA C. GUINIGUNDO

In the last quarter of 2021, the International Monetary Fund (IMF) observed that while global economic recovery was in progress, its momentum had somewhat weakened. A new variant of the virus, Delta, caused more deaths and overwhelmed health facilities across the globe. “Pandemic outbreaks in critical links of global supply chains have resulted in longer than expected supply disruptions, feeding inflation in many countries.” For this reason, the risks to a speedier recovery has risen. With a new variant, Omicron, there is a need to further rethink the country’s economic prospects and what could provide a viable way out of possible prolonged weakness of business activities and dislocation in the labor market.

For the Philippines, the challenge is not so much its fundamentals for a more sustained economic growth. For many years, it has built a relatively resilient framework of growth ranging from appropriate policy and structural reforms, good institutions and broadening infrastructure support. But in more ways than one, the Philippines suffered a serious setback due to the health crisis of 2020 and 2021. Risks continue to rise because of the uncertainty of the pandemic and its corresponding economic and business consequences. Economic scarring will definitely be a persistent challenge going forward. We argue that in order to accelerate the recovery in a post-pandemic world, health mitigation should remain a priority, and alongside, public as well as private investments should be encouraged by public policy. Unemployment and inequality following the pandemic could threaten the economy’s long-term prospects.

Breaking Out of Economic Sickness

Before the pandemic outbreak in 2020, the Philippines was steadily building its reputation as one of the fast-growing emerging economies in the world. From the dreaded label “sick man of Asia,” a reputation the country earned during the economic collapse towards the end of the martial-law regime in the 1980s, the domestic economy was finally able to break out of its perennial boom and bust cycle and transform into one of the most promising emerging economies in the region and in the world.

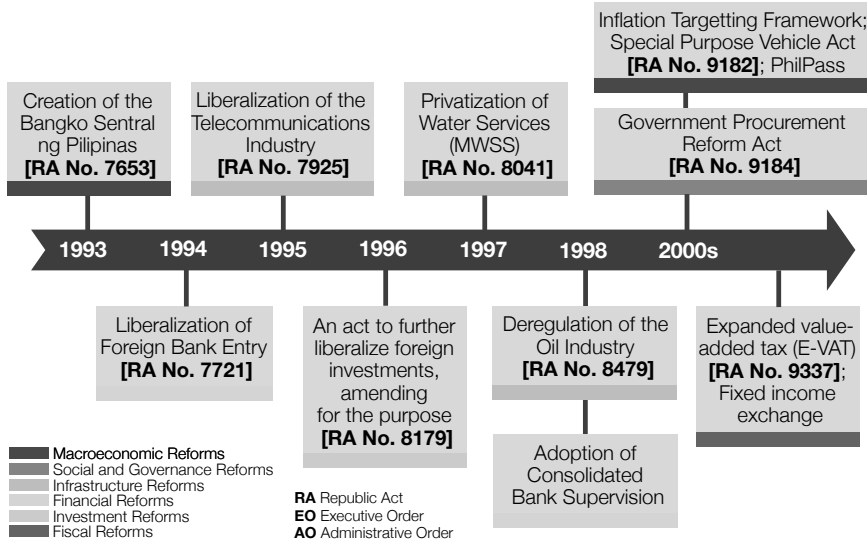
However, the pandemic and the severity of its costs, clearly undermined the country’s economic gains as it experienced a negative pivot, with the domestic economy going into the deepest recession in years during the COVID-19 crisis. Likewise, signs of economic scarring are starting to unfold in the form of a slow recovery of employment in the services sector, along with the dampening optimism of businesses on the domestic economy’s outlook. From one of Asia’s rising tigers, it looks like the Philippine economy will have to work hard to avoid a more protracted economic decline.

Structural Reforms as Drivers of Growth

The domestic economy’s transformation did not happen overnight. It was a product of painstaking structural reforms that started way back in the 1990s. These reforms were implemented in the broad areas of the macroeconomy, social governance, infrastructure, investments, financial system, and public finance. In 1993, the establishment of an independent central bank was made possible through the enactment of Republic Act (RA) No. 7653 which created the Bangko Sentral ng Pilipinas (BSP) to replace the old Central Bank of the Philippines, as the country’s sole monetary authority. Likewise, the entry of foreign banks was also liberalized in 1994 with the enactment of RA No. 7721. Other notable reforms include the liberalization of foreign investments, deregulation of the oil industry, and privatization of water services, among others (Figure 1).

These reforms, which encouraged business confidence and investment, led to rapid and robust growth. In fact, since 2000, the country had recorded a streak of more than twenty years of uninterrupted positive growth until 2019. In particular,

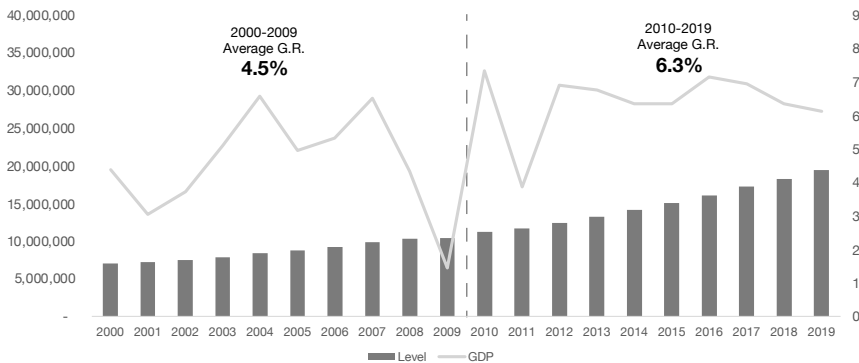
Chart 1 . Selected Structural Reforms in the Philippines
(1990s-2000s)



Source: Author's Illustration

growth accelerated and registered a 10-year average of 4.5% from 2000 to 2009 (Chart 1). This continued in the most recent decade when the Philippines exhibited robust growth and became one of the fastest-growing emerging economies in the region, with an average quarterly growth of 6.3% from 2010 to 2019 (Cabote and Fernandez, 2020).

Chart 2 . Real GDP Growth, 2000-2019
(Levels in Million PhP, Growth in Percent)

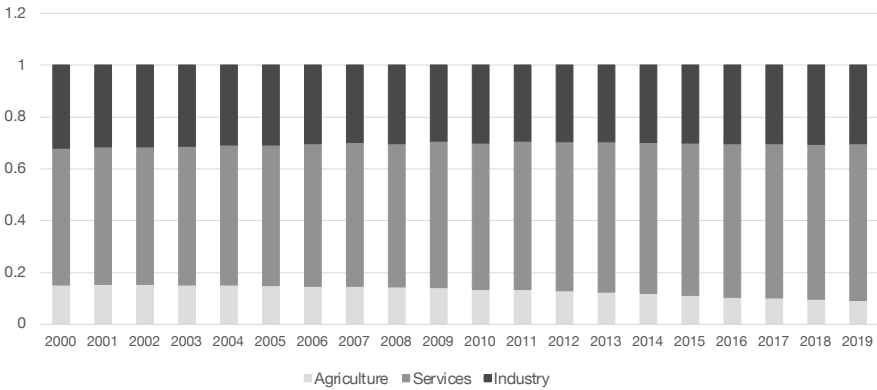


Source: PSA and Author's Calculations

Service and Consumption-Led Growth

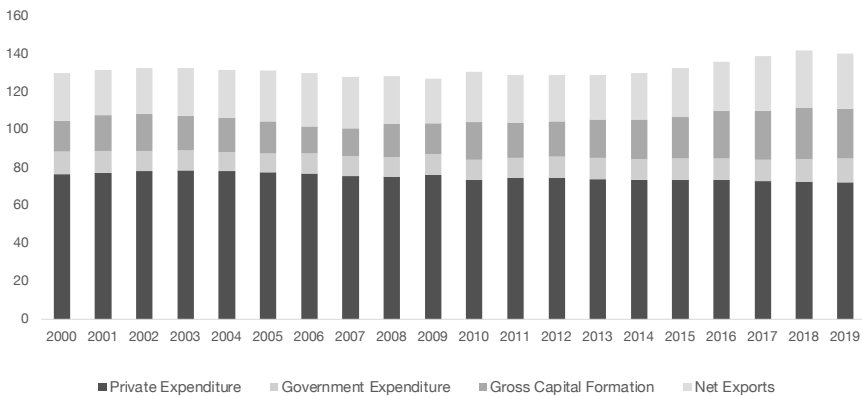
During this period, growth was broad-based with a positive trend towards services and industry, away from agriculture. The robust services sector was the primary driver of growth, accounting for 56.4% or more than half of the country’s GDP (Chart 2). Meanwhile, the industry sector contributed significantly, averaging 30.4% during the same period. The share of agriculture had been declining, as it averaged only 13.2%.

*Chart 3 . Share to GDP by Industry, 2000-2019
(in Percent)*



Source: PSA and Author's Calculations

*Chart 4 . Share to GDP by Expenditure, 2000-2019
(in Percent)*



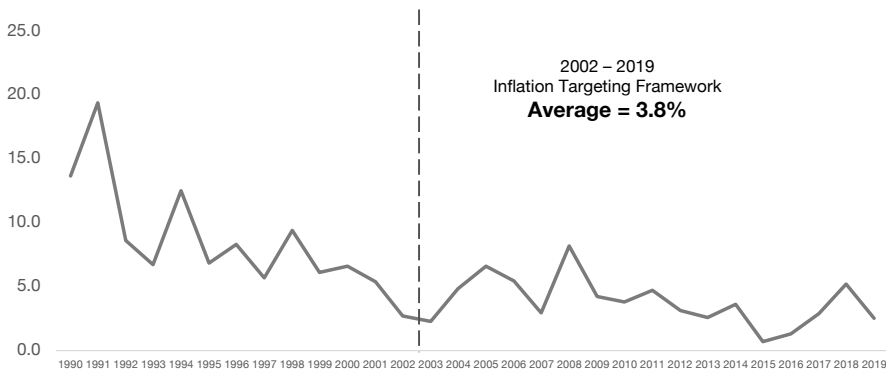
Source: PSA and Author's Calculations

On the supply side, private expenditure remained the main contributor to the country’s GDP, accounting for more than half at 75.3% (Chart 3). This was followed by net exports which averaged at 26.0%. Meanwhile, the share of gross capital formation remained steady at 19.8% even as it has steadily risen in recent years.

Sound Macroeconomic Fundamentals

Other aspects of the economy were also positive for the sustainable growth of the Philippine economy. The country’s low and stable inflation environment supported more bullish economic activity. Since the BSP’s shift to an inflation targeting framework in March 2020, headline inflation has been low and stable relative to their levels in the 1990s. For the period 2002 to 2019, headline inflation averaged at 3.8% (Chart 4). Moreover, the BSP was able to keep inflation within target for the years 2009 to 2014, 2017, 2019.

*Chart 5 . Headline Inflation Rate, 1990-2019
(2012=100)*



Source: BSP, PSA, and Author’s Calculations

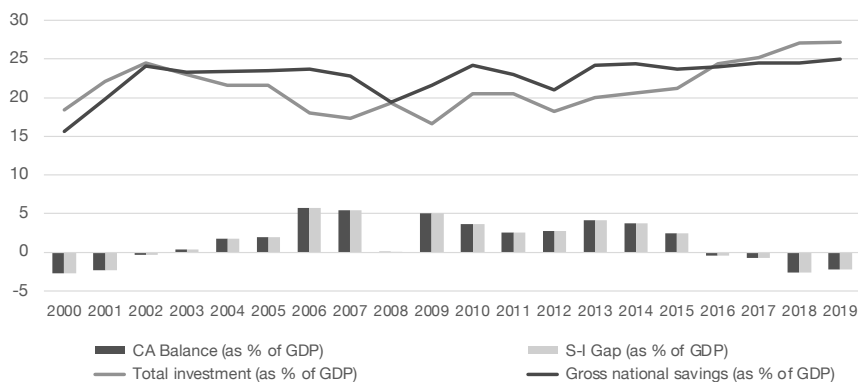
Likewise, Philippine banks have been broadly sound and stable, providing additional anchor of the sustained robust economic performance. The reforms put in place by the BSP along with the banks’ commitment to improve their ability to manage operational risks have resulted in significant improvements in the quality of Philippine banks’ assets, loan portfolios and capital base. In fact, Capital Adequacy Ratios (CAR) remained well above the international standard

of 8.0%. The sound financial system enabled the effective intermediation of funds to productive sectors, thus further promoting higher economic growth.

The country also enjoyed a favorable external position. The current account also reflected efforts to support the sustained expansion of the domestic economy. For the period 2000 to 2019, there was an observed increase in investments and infrastructure spending, reflected in the narrowing of the savings-investment gap (S-I gap) and correspondingly, the reduction of the current account surplus. As a result, the Philippine economy’s potential capacity showed some expansion (Chart 6).

More specifically, the chart shows that the S-I gap has stayed positive since 2003, hence the CA surpluses during this period. Prior to the GFC in 2008, the CA surpluses were mainly driven by excess savings. This means the growth of the economy was supported by these savings and some inflows from abroad. However, the S-I gap converged in 2008 as savings decreased. Subsequently, as investments generally recovered and picked up, savings likewise increased, albeit at a faster rate due to structural sources of foreign exchange. The S-I gap started to narrow in 2015 due mainly to the rise in investments and increase in infrastructure spending. Over time, it is expected that as the investment-led economic activities result in the expansion of the economy’s potential capacity and support the needed infrastructure development, we can expect a subsequent rise in goods exports, eventually mitigating the trade gap, and more bullish economic and business activities.

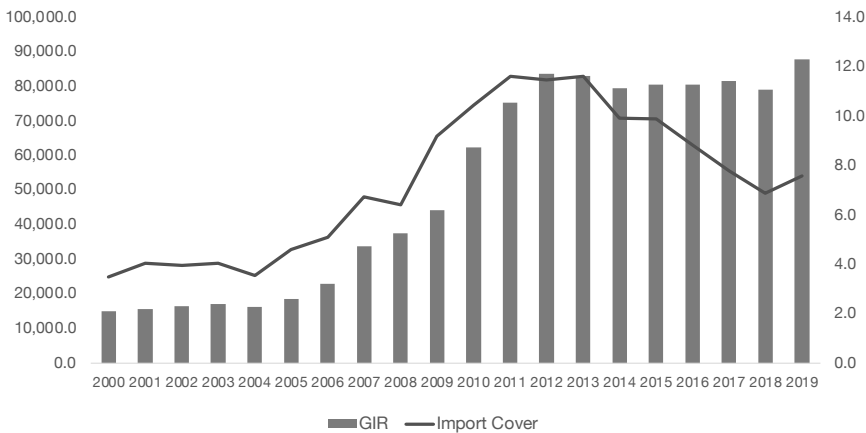
Chart 6. Current Account Balance Dynamics, 2000-2019



Source: BSP and Author's Calculations

The favorable external position also allowed the country to accumulate sufficient external buffers. The country’s gross international reserves (GIR) grew steadily during the period (Chart 7). As of end-2019, GIR stood at USD 87.8 billion, providing more than adequate external liquidity buffer. The GIR level then was equivalent to almost 7.6 months’ worth of imports of goods and payments of services and primary income. This far exceeded the 3-month conventional reserve level considered as adequate. It was also about 5.1 times the country’s short-term external debt based on original maturity and 3.9 times based on residual maturity. The GIR was supported by improving inflows of cash remittances from overseas workers and business process outsourcing.

Chart 7. Gross International Reserves, 2000-2019
(in Million USD, in Percent)

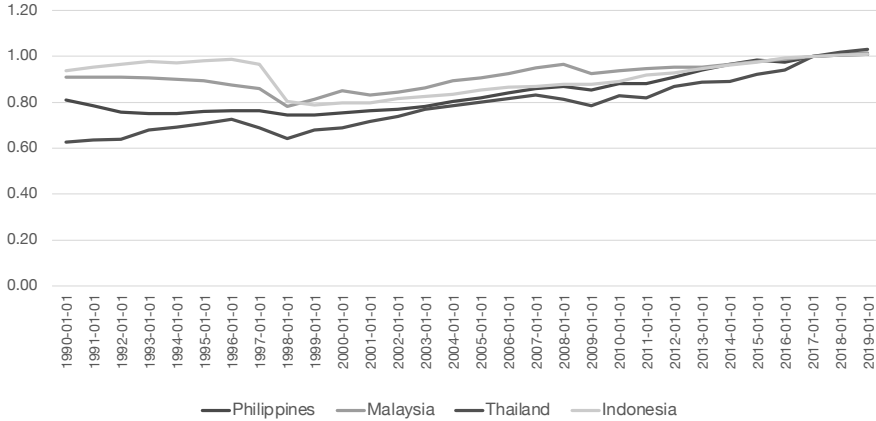


Source: BSP, PSA, and Author’s Calculations

Increasing Productivity

The country was even poised toward higher potential growth due to several positive growth additives. First, total factor productivity has been steadily increasing and even considered to be one of the highest in the Asian region (Chart 8). Second, estimates of the country’s incremental output ratio (ICOR) has also been declining, indicating greater capacity to utilize its resources more efficiently.¹ Lastly, the country enjoyed favorable labor market dynamics given the young population and improvements in the education and skill sets of those in the labor force.

Chart 8 . ASEAN-4 Total Factor Productivity, 1990-2019



Source: ST. Louis Fed, FRED

Third Party Affirmation

The country’s sound macroeconomic fundamentals became important as ingredient to economic resiliency when they have also been accorded third party affirmation. During the period, international credit rating agencies (CRAs) have noted the sustained gains of the country in the areas of economic reform and liberalization that have produced the positive dynamics of growth and stability. Since 2010, the Philippines has earned credit rating upgrades from the major CRAs, moving the long-term sovereign debt status from junk to investment grade. These successive recognitions of the country’s increasing creditworthiness have undoubtedly cemented the Philippines’ status as an excellent investment destination. The Philippines maintained its investment grade status to date from major international credit rating agencies despite the impact of the global financial crisis. At investment grade, the country is considered to be less risky and fully able to service its foreign debts.

Key international financial institutions like the International Monetary Fund (IMF), the World Bank (WB), Asian Development Bank (ADB) and the Singapore-based ASEAN + 3 Macroeconomic Research Office (AMRO) have been one in their favorable assessment of the country’s economic performance and future growth path. In particular, they have noted the significant contributions of the nearly 30-year efforts in policy and structural reforms, as well as in laying down critical infrastructure support to sustainable growth.

Indeed, the Philippines' robust growth, driven by a strong service sector and large private sector consumption, supported by appropriate policy reforms and infrastructure development poised the country on track to achieving its long-term vision embodied in the "AmBisyon Natin 2040," where the Philippines is envisioned to be: 1) a prosperous, pre-dominantly middle-class society where no one is poor; 2) a healthy and resilient society; 3) a smart and innovative country; and 4) a society characterized by high trust (NEDA, 2016).

The Pandemic Impact

However, the COVID-19 pandemic derailed the Philippines' track to its strategic development target to be an upper middle-income country. The unprecedented nature of the pandemic and the severity of its economic and financial impact quickly escalated the pandemic into a two-pronged health and economic crises (Berglof & Farrar, 2020).

Koenig (2020) compared the effects of the pandemic on the economy to severe weather-related disruptions, although different in scale and duration. During a storm, for instance, workers are unable to report to work, and consumers are deterred from going to stores and retail shops, thereby adversely affecting demand and supply conditions. However, most weather-related shocks are localized and transitory. On the other hand, the economic and financial shock emanating from the pandemic is far more widespread and potentially more persistent. Economic scars could also be more long lasting and burdensome.

Pandemic-Induced Recession

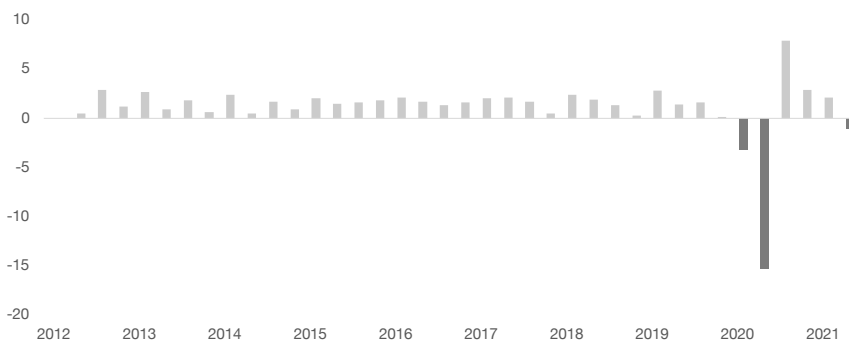
The Philippine economy certainly suffered from the severe and prolonged brunt of the pandemic. Almost two years into the crisis, the country continues to grapple with the challenges brought about by the pandemic. Although somewhat belatedly, the country was among the first to impose stringent lockdown restrictions in March 2020 which had widespread repercussions on the real economy.

The pandemic and the lockdown measures pushed GDP growth to drop by 0.7% in Q1 2020, ending the country's streak of uninterrupted growth. In Q2

2020, GDP growth plummeted to a historic low of 17.0%, the lowest recorded growth since 1981, thus officially bringing the country into recession.

The Philippines remained in contraction until Q2 2021, when GDP rebounded and posted a growth of 11.8%, which ended the pandemic-driven recession. Despite this early sign of green shoots, recovery has remained fragile. In fact, seasonally-adjusted GDP growth on a quarter-to-quarter basis shows that the economy still shrunk by 1.3% (Chart 9). This suggests that the road to recovery remains weak, and therefore it could be long and winding.

Chart 9. Gross Domestic Product
(Seasonally Adjusted Quarter-on-Quarter Change (%))

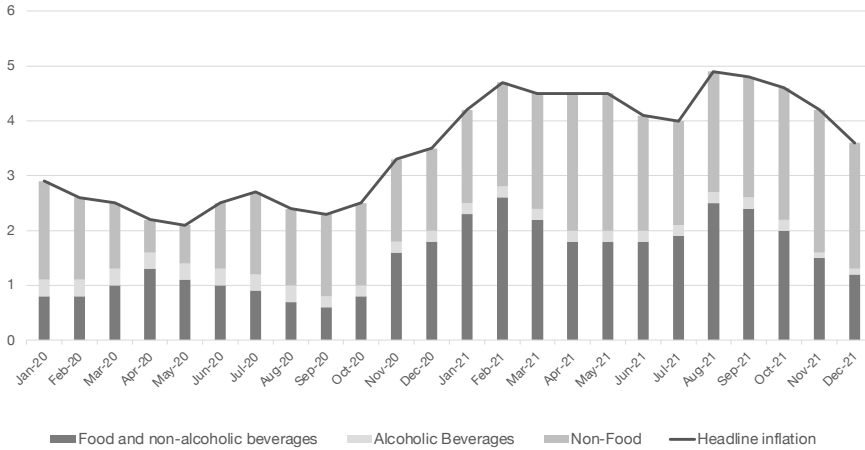


Source: PSA

Inflationary Pressures from Supply Disruptions

Despite the weak growth, supply shocks exerted upward pressures on overall domestic prices. Inflation rate for the whole year 2021 averaged at 4.5% (Chart 10), well above the National Government's (NG) target of 2.0-4.0%. Inflationary pressures were mostly cost-push factors stemming from adverse weather conditions and higher transport costs due to difficulty in moving goods with the imposition of lockdown measures. While these are mainly transitory, the possibility of second-round effects could put the country on a difficult combination of low growth and high inflation environment. In fact, the BSP projects that inflation could remain elevated in the near term before decelerating to within the target range by the end of the year. Exceeding inflation targets over a long period could potentially upset inflation expectations of the public, generate second-round effects, and entrench higher and more persistent inflation (BSP, 2021).

Chart 10. Inflation Contribution by Major Component
(Seasonally Adjusted Quarter-on-Quarter Change (%))



Source: BSP, PSA, and Author's Calculations

Economic Scarring

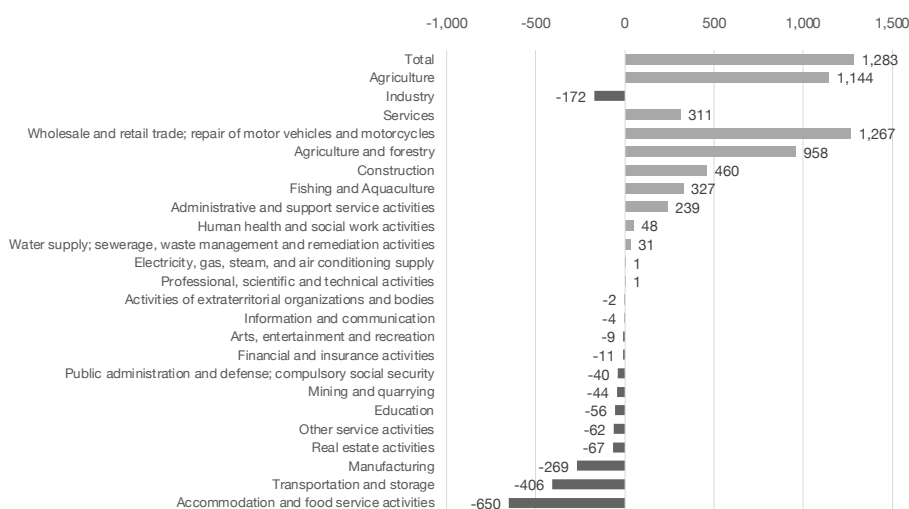
The pandemic could potentially have more persistent and lingering effects on the economy, or from what is referred to as economic hysteresis or scarring. In the absence of herd immunity, households and businesses will continue to face considerable uncertainty and downside macro risks. These include the fear of further job losses or business failures and the possibility of a renewed escalation of the outbreak that requires periodic lockdowns. Moreover, the pandemic could trigger more permanent and structural changes in the labor market. According to Haldane (2020), the pandemic has shifted relative prices that incentivizes firms to invest in machines instead of people, thereby potentially lowering employment, and labor productivity. This can also be evident in the form of asymmetrical preference in employment across sectors.

This has started to manifest in the country's labor market. For the period January-November 2021, unemployment has remained elevated, peaking in September 2021 and somewhat declining to 7.4% and 6.5% in the following two months, or some 3.16 million people out of jobs. More and more people have entered the labor force indicating the need for families to increase their take-home pays. Reimposition of strict lockdowns has been clearly reflected in the corresponding increase in the number of displaced workers. However, the quality

of jobs available appears to be far from gainful. Underemployment has continued to deteriorate from September 2021’s 14.2%; to 16.1% in October 2021; to 16.7% in November 2021.

Aside from the overall lower employment, asymmetric conditions across sectoral employment are starting to be evident (Chart 11). The data shows that sectoral employment has exhibited mixed trends. While total employment recovered relative to pre-pandemic levels, some major sectors continued to exhibit employment losses. In particular, accommodation and food services activities and transportation and storage suffered the most loss as they recorded 650,000 and 406,000 employment losses, respectively.

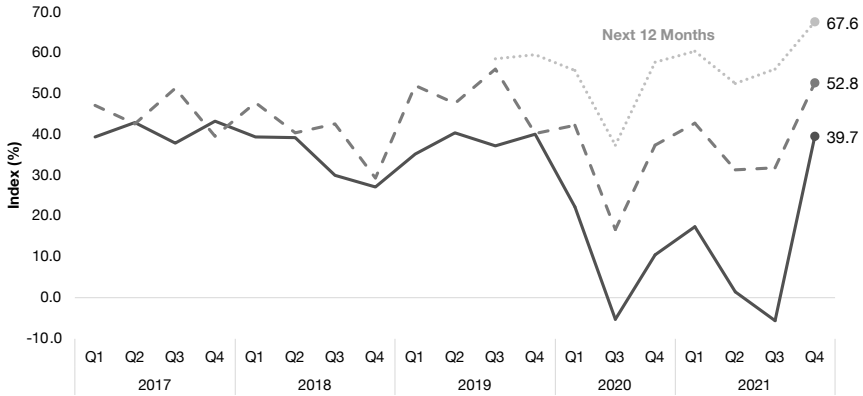
Chart 11 . Sectoral Contribution to Unemployment
(January 2020 vs October 2021)



Source: PSA, and Author’s Calculations

Sentiments of economic agents were mixed, with some dampened by the pandemic. The recent results of the BSP’s Business Expectations Survey (BES) indicated that business sentiment turned optimistic in Q4 2021 (Chart 12).² The optimism was attributed to easing COVID-19 restrictions and positive developments in the country’s vaccination rollout, among others. All sectors indicated a more optimistic outlook relative to a quarter ago as the confidence indices (CIs) turned positive for firms from the construction, services, and wholesale and retail trade sectors and more positive for the industry sector.

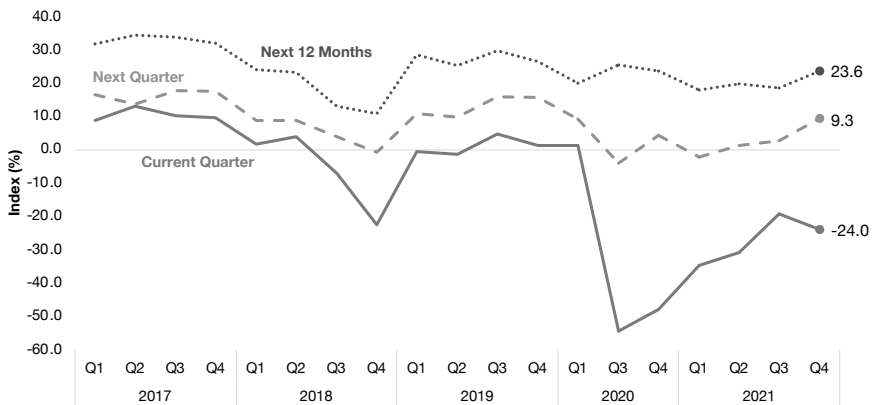
Chart 12 . Business Confidence Overall Index
(Q1 2017-Q4 2021)



Source: BSP

However, consumer sentiments appeared to be more pessimistic in Q4 2021 (Chart 13) as the CI further dropped. According to respondents, their weaker outlook during the quarter was brought about by their expectations of: 1) higher unemployment rate; 2) lower income; 3) on going COVID-19 pandemic, higher cases, restriction/lockdown/travel ban; 4) faster increases in the prices of goods; and 5) less working family member. The recent typhoon also added pessimism to the consumer respondents.

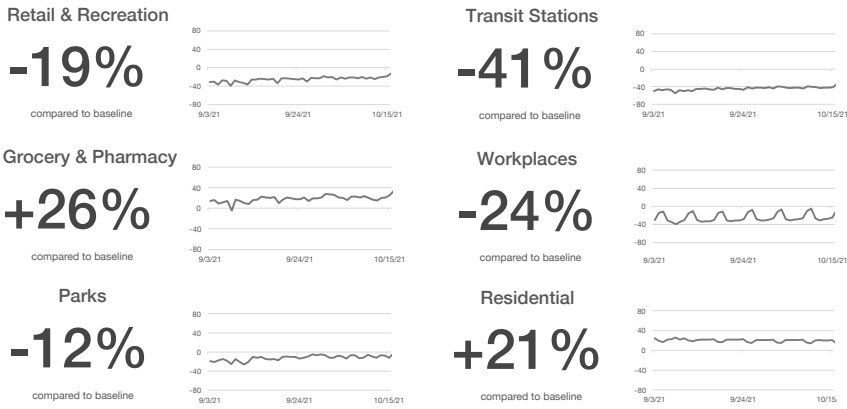
Chart 13 . Consumer Confidence Overall Index
(Q1 2017-Q4 2021)



Source: BSP

The reimposition of lockdown measures in August 2021 amid the surge of the Delta variant could also potentially threaten economic recovery. According to Google mobility trends, mobility in the Philippines tightened in August 2021 due to the reimposition of ECQ in some areas of the country (Chart 14). This could potentially dampen growth prospects for the rest of 2021. In particular, mobility in transit stations, workplaces, retail and recreation, and parks were all down compared to the baseline period.³ In subsequent months, with more widespread rollout of vaccines and downgrading of alert levels, less stringent quarantine measures have ushered in greater mobility and some recovery in business activities.

*Chart 14 . Google Mobility Index
(as of August 2021)*

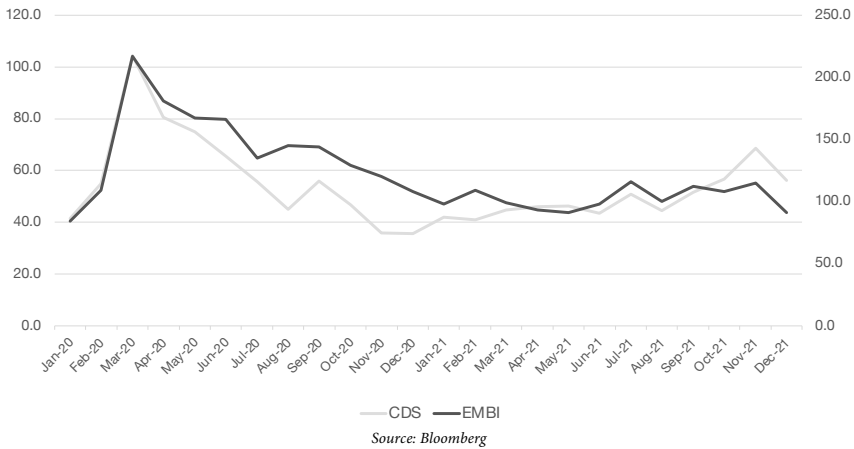


Source: Google Mobility Index

The domestic financial markets were also not spared from the adverse headwinds of the pandemic. Chart 15 shows that the emerging markets bond index (EMBI) for the Philippines and 5-year credit default swaps (CDS) peaked when the nationwide lockdown was announced. Since then, as the country struggled with the pandemic with lockdowns, health mitigation and sustained efforts to help in economic recovery, both metrics started to slide down with periodic increases coinciding with the succeeding waves of the viral infection. These suggest that investor confidence for Philippine assets such as bonds remains broadly intact. Nonetheless, policymakers need to be risk-conscious. If the pandemic management continues to be weak and our recovery lags behind the

region, these relatively reasonable credit spreads could widen, to the detriment of the country’s sovereign and corporate borrowers.

*Chart 15 . EMBI+PH vs Credit Default Swap (CDS), January 2020-December 2021
(in Basis Points)*



The Pandemic: Punctuated Equilibrium

At this point, the big question is how an economy that has seen over two decades of sustained economic growth could be suddenly punctuated by the health pandemic. In more ways than one, the Philippine economy entered the pandemic in a position of relative strength. Following Danny Rodrick (2020), one can argue that while the pandemic certainly weakened the Philippine economy, it also accentuated pre-existing growth issues.

Need for a More Viable Growth Strategy

First, perhaps the most painful lesson from the pandemic is that a growth strategy driven by services appears to be more vulnerable to events such as the COVID-19 outbreak. Since the provision of services is physical and largely depends on mobility, then tourism and services are likely to be constrained by lockdown measures (Mendoza, 2021). Similarly, Rodrick (2020) observed that most growth strategies based on demand-side factors may be unstable. Export-oriented industries in many emerging countries, which have historically driven economic

growth, also appear to have reached their peak. The pandemic served as a wake-up call to a broader rethink of economies' growth prospects. Emerging economies would have to rely on new growth models to replace their old strategy or would need to complement their current strategy. During the pandemic, the digital shift proved very useful in mitigating the adverse impact of physical restrictions to economic and business activities, including the provision of services. This broad tweaking of business processes could amount to a significant cushion to a prolonged health crisis.

Need to Improve Health Systems

Second, the pandemic also unmasked the extent of under-investment in health and other relevant sectors. As the pandemic demonstrated, a well-functioning health care system is not sufficient to effectively respond to disease outbreaks of similar scale. Oni et al. (2020) argued that a more robust "system for health," is needed to effectively respond to pandemics. This comprises integrated development of all sectors that influence public health outcomes such as transportation, manufacturing, agriculture, and urban development. The pandemic revealed the extent of under-investment in various aspects of the public health systems in developing economies, which made them more susceptible to the health crisis.

Mendoza et al. (2021) underscored the importance of healthcare saturation as a main determinant of cross-country variation to declines in GDP. The authors identified three major components of healthcare saturation that was caused by the COVID-19 pandemic namely: 1) capacity of hospitals to treat a patient or provide ventilation therapy; 2) closure of non-COVID related medical services; and, 3) shortages of medical supplies. All of these components could lead to health care collapse which could, in turn, serve as important transmission channels of the pandemic's impact on the economy. For instance, the saturation of hospital capacity to treat patients and closure of non-COVID related medical activities could lead to workers with poorer health outcomes thereby reducing their productivity. Likewise, shortages of supplies could lead to inflationary pressures and price hikes. Their model implies that a pandemic is more damaging for countries with higher wealth inequality and/or weaker health systems or other similar pre-pandemic conditions.

Pandemics have Real Economic Costs

Third, the economic and financial costs of the pandemic could be staggering. This entails that economic recovery will depend on the interplay of both the COVID-19 cycle and the Business Cycle (Roach, 2020). While a successful containment of the pandemic is possible in the near or medium term, its impact can be more far-reaching and long term. Jorda et al. (2020) studied the impact of major pandemic events dating back up to the 14th century on the rates of return on assets and found that significant macroeconomic effects of the pandemic persist for decades, with rates of return substantially depressed. This entails that while maintaining the focus on addressing the health emergency and providing lifelines for households and businesses is essential, governments also need to prepare economies for the transition to the post-COVID-19 world.

Closer to home, these lessons were indeed felt in the Philippines. For instance, assessments of the pandemic's impact on the Philippine economy have shown that losses are more pronounced in the services sector. This can be seen in the relatively slower recovery of employment in the sector compared to the industry sector.

The health crises also revealed the country's health sector deficiency in addressing the pandemic. Infrastructure on infectious disease surveillance and preparedness were lacking. For instance, authorities tasked to manage the pandemic were unable to design, develop, and operationalize a centralized digital database system to allow granularity in health decisions. The healthcare system was also at risk of saturation. According to the University of the Philippines (UP) COVID-19 response team, the rising cases of COVID-19 infections could be a serious concern because of the limitations in hospital care capacity in the country. A rise of the reproductive rate (R_0) of 2 could lead to shortage of hospital beds handling severe and critical cases. COVID-19-related patients alone could fill up the total bed capacities which could potentially lead to closure of non-COVID related medical services. Moreover, there is also the risk of potential saturation of human health resource. To handle critical patients, there should ideally be one attending physician for every two patients, and one-on-one nursing. UP estimates that in a scenario where R_0 reaches 2, this would roughly translate to 14,500 doctors and 13,200 nurses. Peak-time critical COVID-19 cases alone would require the attention of approximately 21.0% of the country's healthcare workers.

The economic cost of the pandemic is indeed significant for the Philippines. According to the National Economic and Development Authority (NEDA), the total cost of the pandemic for 2020 amounted to PhP 4.3 trillion. This comprised of a PhP 2.1 trillion in loss from forgone consumption; PhP 1.8 trillion in private investments and returns; and PhP 0.4 trillion in human capital investment and returns. For the next 10 to 40 years, our planning authority calculated over PhP 37 trillion or a total of PhP 41.4 trillion. This is slightly over two years of current GDP of the Philippines, or about eight times the country's annual national budget. Both consumption and investments are likely to drop in the next 10 years because of the decline in demand in sectors affected by physical distancing like tourism, restaurants and public transport. Tax revenues could also be affected. Based on NEDA's estimate, it would take 10 years before the economy regains its pre-pandemic growth path. These are the scars on the economy that require mitigation.

The Investment Imperative

Literature has underscored the role of promoting economic development that is sustainable and resilient. Traditional growth models have alluded to the importance of investments in achieving more sustainable economic growth. For instance, neoclassical models such as the Harrod-Domar model stipulated that for an economy to grow, investments generated from domestic savings are needed. Hence, policy objective from this perspective involves increasing a country's savings rate to produce sufficient investments that would achieve target growth. Meanwhile, the Solow-Growth model emphasized the role of technology in achieving growth, but nonetheless recognized that labor productivity relied heavily on capital-labor ratio. Larger capital allows an economy to reach its growth rate at the steady state. This model was later on augmented to broaden the concept of capital to include human capital, which is also a very important determinant of productivity and growth. Despite these differences, most of these models have underscored the role of investments in promoting growth (Jurado, 2003).

A plethora of empirical studies have also supported the positive relationship between investments, in all its forms, and economic growth. Ari and Koc (2018) investigated the nonlinear causal relationship between public-private investments

and gross domestic product in the United States (US) and China. The authors found a strong and common causal relationship between the U.S. and China for sustainable economic growth among public and private investments and economic growth. The findings show that there is a feedback loop in either or both directions that reinforces both public and private investments. In particular, private investments in the US promotes public investments, which in turn, promotes economic growth which then feeds back to further promote private investments. Meanwhile in China, public investments feed private investments through GDP and vice versa. These findings suggest that the direction of the feedback could depend on country characteristics such as socio-economic regimes. Le and Surga (2005) conducted a panel analysis of 105 developed and developing economies and found that public and foreign direct investments (FDI) have a positive impact on growth, although the latter's impact diminishes when public investments exceed 8-9%, implying possible crowding out effects. Meanwhile, Everhart and Sumlinski (2001) found that crowding out is possible between public and private investments, but this is less prevalent in countries with good institutions.

A More Resilient Strategy for Growth

All of this evidence argues in favor of investments providing a possible approach to attain economic growth and provide some solutions to economic and financial issues brought about by the crisis. First, in terms of finding a more resilient model of growth, investments offer the promise of more resilience during periods of economic stress and crisis. There is evidence that past crises have revealed that FDIs could potentially provide stability and resilience. Alfaro and Chen (2012) found that multinational companies performed better than local competitors on average. In particular, multinational firms showed greater resilience to crises thanks to their access to production and financial linkages, as well as multinational networks. Similarly, Desai et al (2007) noted that foreign firms perform better than domestic firms during currency crises due to their ability to circumvent financial constraints given their access to parent company's equity.

The role of FDI during recovery goes beyond financing (OECD, 2020). Multinational firms are generally larger, more research and development intensive, and more productive. They also foster greater cross-border partnerships

and collaborations between companies which could facilitate finding long-term business solutions. Lastly, Jorda et al. (2020) showed that consistent with the neoclassical growth model, capital is destroyed in wars, but not in pandemics. In fact, pandemics could potentially induce relative labor scarcity and/or a shift to greater precautionary savings. This means growth models anchored on investment offer a likely more viable strategy, especially when recovering from a pandemic crisis.

Investment Could Fill the Health System Gap

Second, massive investments are currently urgently required to address the deficiencies in the health care sector that unfolded during the pandemic. The pressing need is to strengthen the resilience of health systems. Health systems include the health sector, as well as in the relevant industries affecting health outcomes, such as health care, schools, safe buildings, safe transportation, and digital infrastructure. According to the World Health Organization (WHO), an additional USD 370 billion per year are needed for primary healthcare to achieve sustainable development goals on universal health care in low- and middle-income countries. Craven et al. (2021) also argued for the need to invest in infectious disease surveillance and preparedness to prevent the occurrence of future pandemics, or mitigate their impact. Systems need to be in place for the early detection and decisive response to early signs of outbreak. Lack of well-established systems has led to challenges in ramping up public communication, contact tracing, mass testing, and critical care capacity. Establishment of such systems, of course, would cost around USD 85 billion to USD 130 billion over the next two years and approximately USD 20 billion to USD 50 billion annually in the succeeding years.

With governments already highly leveraged, FDI's can therefore play a crucial role in covering the financing gap in healthcare. According to Mantovani (2020), FDIs to the health sector have several advantages. First, they are debt-free investments. They increase healthcare capacity and alleviate shortages in the supply of healthcare without putting heavy pressure on public finances. Second, FDI can raise the overall quality of host country health services by spreading innovations in medical technology, drugs and health services, as well as superior management techniques, organizational skills and information systems.

Investment Could Mitigate the Economic Scars

Investments could also help prepare economies to transition to the post-pandemic world. In particular, investments help alleviate economic scarring from labor productivity loss by helping people get back to work. In this area, public investment could also play a crucial role in recovery. Gaspar et al. (2020) estimated that during periods of uncertainty, increasing public investment by 1% of GDP could boost confidence in recovery, which in turn, can boost GDP by 2.7%, private investment by 10%, and employment by 1.2%. These estimates apply to both developed and developing countries, provided that investments are of high quality and existing public and private debt burdens do not weaken the response of the private sector to the stimulus. The authors pointed out that historically, increasing public investment could help economic activity from the sharpest and deepest global economic collapse.

Moreover, public investments have been found to generate between 2 and 8 jobs for every USD 1 million spent on traditional infrastructure. Meanwhile, more jobs are generated at around 5 and 14 jobs if the same amount is spent on research and development and sustainable green projects. Lastly, public investments could catalyze private investments as they signal governments' commitment to sustainable growth. Such commitment shores up private sector confidence, which in turn, could increase private investments.

Policy Response for the Philippines

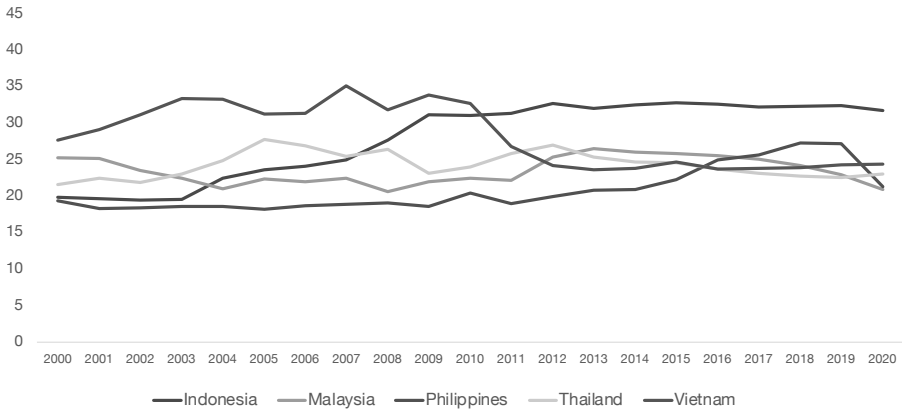
Pursuing policies that promote investments could therefore help the Philippines address the health and economic ramifications of the pandemic, and in the process, strengthen the economy's traction towards early and quick recovery.

Low Investment Performance

The challenge for policymakers in the country is to create an economic environment that could attract significant amounts of investments. Prior to the pandemic, the Philippines has already lagged behind its ASEAN-5 peers in terms of total investments. Chart 16 depicts the total investments as percent of GDP in ASEAN-5. Since 2000, investments in the country have been consistently lower

relative to those of the ASEAN-5.⁴ Investments started to increase only in 2015, overtaking countries like Malaysia and Thailand, only to sharply drop in 2019. In the next two years of the pandemic, the weakness of investment in healthcare facilities particularly in health monitoring and treatment at the provincial levels became more manifest and socially untenable. Economic and business activities could also make use of higher levels of investments to make them more sustainable and self-sustaining. It is therefore imperative to implement policy measures that would attract domestic investments, both public and private, as well as foreign.

*Chart 16 . ASEAN-5 Total Investment
(as percent of GDP)*



Source: IMF

Literature has pointed to several push and pull factors that affect the ebb and flow of capital to emerging economies like the Philippines. Push factors relate to global financial conditions, risk appetite of global investors, and policy spillovers from other economies. For instance, Fernandez (2015) found sufficient empirical evidence that the US Federal Reserve’s monetary policy, such as the quantitative easing (QE) program, significantly contributes to the flow of portfolio capital in the country. Philippine equity flows were particularly sensitive to US long-term interest rates. Meanwhile, pull factors refer to country specific characteristics that define the attractiveness of a country as an investment destination. These factors include macroeconomic fundamentals, domestic policies of capital recipient economies, quality of institutions, and infrastructure, among others. They are also associated more with long-term investments.

The Role of Good Institutions

Good governance and institutions play a very important role, not just in improving a country's investment climate, but also in promoting overall sustainable growth. Acemoglu and Robinson (2005) argued that inclusive institutions that create incentives for people to innovate, enable productivity growth through education and infrastructure, and maintain peace and order are all essential in creating an environment that is conducive to sustainable growth. In contrast, extractive institutions, or those catered to oligarchic interests, tend to result in poverty and stagnant growth even in resource-rich economies, like what many African countries experienced.

Singapore's experience showed that good governance, not less governance, is a more successful approach in addressing the challenges of economic inequality, environmental degradation and terrorism (Abeyasinghe, 2015). Their focus on good governance showed that non-economic factors matter more than the economic factors for a successful take-off of a developing economy. In the Philippines, two specific governance issues require special attention: 1) poverty and inequality; and, 2) corruption and bureaucracy.

According to Cabote and Fernandez (2019), income inequality in the Philippines has gone down, albeit gradually over the years. This is reflected by the sluggish decline in the country's Gini coefficient from 48.5 in 1970 to 46 in 2015. The progress in terms of reducing inequality remains slow for the Philippines vis-à-vis its Asian counterparts. At present, roughly a quarter of 109 million Filipinos live below the poverty line. It is reported that the ultra-poor families subsist on PhP 25 a day, with no job skills set, no productive assets, and reside in impossibly isolated rural areas and blighted parts of the cities.

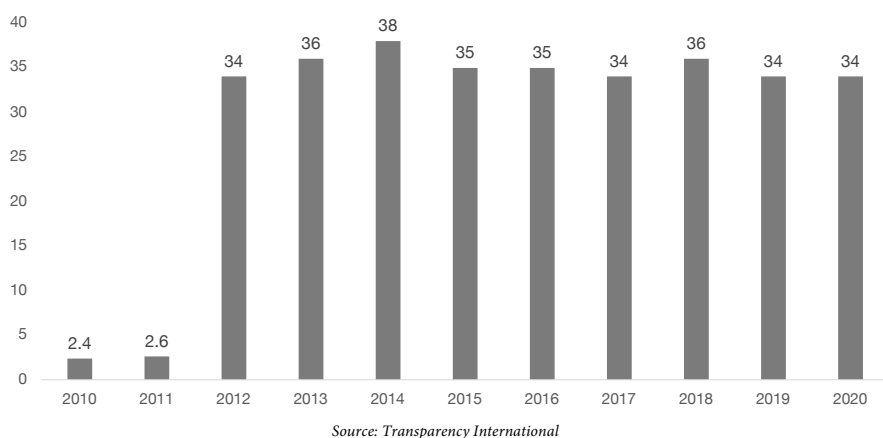
There is evidence which suggests that high and persistent inequality is a bane for a country's economic growth and its people. This stems from the idea that inequality affects not only the poor but the rest of the economy. First, inequality is viewed to constrain the lower-income households of the resources needed to access quality health services and education, which may hinder human capital development in a nation (Perroti 1996).

According to Duflo and Banerjee (2010), the way forward "is to abandon the habit of reducing the poor to cartoon characters and take the time to really understand their lives, in all their complexity and richness." In other words, there is no one-size-fits all solution. The government needs to pay attention and provide

them access to basic needs like livelihood, education, and health services, among others.

In terms of corruption, while the country has made significant strides to improve the quality of its institutions, persistent issues of corruption and widespread red tape, especially during this period of pandemic, has put the country's reputation at risk once again. In fact, the Philippines dropped two places from 113th to 115th place with a score of 34 index points in Transparency International's Corruption Perceptions Index in 2020. The country's highest ranking was in 2014 when it placed 85th out of 180 countries and scored 38 index points (Chart 17).

*Chart 17. Corruption Perception Index Score for the Philippines
(in Index Points)*



At the same time, business processes in the country also need to be streamlined. A survey that targeted 800 establishments representing four major manufacturing sectors, conducted by ADB (2005), identified that significant delays are experienced by firms in securing government licenses or permits. On the average, obtaining an operating license takes about 14 days. To shorten bureaucratic red tape, firm managers often find it necessary to personally transact with government authorities, spending an average of about 9.0% of management time weekly in dealing with government regulations. This is particularly acute for electronics firms, averaging at 12.0%.

Chikiamko (2021), argued that the root of the country's bad governance lies in its political economy, which is inwardly oriented. The competition from an

outward-looking economy could impose the needed discipline to correct for bad practices. For instance, in Singapore, a private sector-driven open economy, open to international trade and investments, has acted as a mechanism to discipline government bureaucracies and enhance the quality of governance. Singapore's global dependence played an important role in disciplining the country's single-party government. Openness, once set in motion, appears to generate a sustaining feedback loop between government policies and the country's socio-economic environment that will bring about higher economic growth and ethnic peace. Policymakers in this setting are more likely to implement socio-economic policies that harness ethnic peace and share the growth dividends (Abeyasinghe, 2015).

The Need for Better Infrastructure

Investments are naturally attracted to areas with adequate roads, ports, and other essential infrastructure because such facilities affect a firm's profitability due to the reduction in production costs and ability to reach wider markets (ADB, 2005).

Large infrastructure gaps have contributed to the investment bottlenecks in the Philippines. According to the Global Competitiveness Report in 2019, the Philippines ranked below many of its regional peers in terms of quality of infrastructure including transport systems, telecommunication, and electricity.

To tackle the issue, the Philippines increased spending on roads, bridges, air and sea ports, and other large-scale projects in recent years through its Build, Build, Build program, which includes large-ticket projects on transportation, water resources, and energy. Public infrastructure investments rose from an average of 3.0% of GDP during 2011–16 to over 5% in 2018, with the target of raising the ratio to over 6.0% by 2022. These projects are expected to improve the connectivity and mobility in the country. More generally, improvements in the quality of infrastructure services will help cut the cost of doing business, attract more investment, and enhance productivity around the country (IMF, 2020).

According to the IMF (2020), ensuring the success of these projects requires significant improvement in project appraisals and identifying early risk reduction measures at the early stages of each project. Procurement systems and procedures badly need stronger tweaking and supervision. Greater competition and transparency would reduce corruption and consequently, the cost of infrastructure. Lowering barriers to FDI such as easing regulatory restrictions

and improving ease-of-doing business would also be critical.

Of course, there is also the need to attract investments to the right sector. For instance, there is an urgent need to improve the country's health infrastructure to enhance its preparedness and resilience to pandemic events. Aside from physical infrastructure, Oxford Business Group identified some key sectors where the government should focus on, namely: 1) capacity building initiatives like scholarship and deployment programs for medical practitioners; 2) improvements in preventive and primary care such as immunizations; and 3) research and innovative health technology.

Oni et al. (2020) suggested that impact investing could play a vital role in channeling funds to countries that need it most, as well as to the health and other relevant sectors. The pandemic offers an opportunity to reevaluate how we pursue innovation and reform on failing systems. This entails integration of knowledge-based systems and a culture of information sharing in responding to crises. For instance, the world could learn from strategies implemented by countries that have successfully controlled and contained the transmission of COVID-19 virus.

Policymakers could also learn from South Korea's decades of efforts to build a resilient universal health-care system. Jong-Hwa (2021) argued that South Korea's experience shows the benefits of incorporating a well-designed health-development strategy into the overall development strategy. First, they invested heavily in medical infrastructure. At present, South Korea now has 12.4 hospital beds per 1000 people, which is significantly higher than the US' 2.9 beds per 1000 people. Second, the establishment of a Universal Health Care system has made medical and healthcare services more accessible and cost effective. At present 97.0% of their population is covered by National Health Insurance (NHI) and the remaining 3.0% by Medical Aid Program. This helped South Korea respond relatively well to the pandemic.

Going Digital

There is also the need to strengthen the digital infrastructure. The pandemic has shown several advantages of the digital economy. The private sector can lead in the innovation of digital products and services that would allow the increase of the breadth and reach of markets even in these difficult times. Banks can be skewed to digital banking to reduce transaction costs, improve services, and

reduce viral transmission. The challenge to the regulators and operators of these digital platforms is, of course, to ensure integrity in the whole process, ensuring that no operational disruption or hacking would compromise the completion of commercial transactions. Consumer protection should be paramount.

In particular, the Philippines has taken significant strides towards digitalization of payment systems. The BSP has collaborated closely with the banking industry to enhance the safety and reliability of the retail payment system through the country's National Retail Payment System (NRPS). There are measures in place to promote contactless payments and to increase the use of mobile money adoption by: 1) reducing the cost of mobile money transfers (i.e., P2P, G2P, B2G); 2) temporarily waiving mobile-money transfer charges until a certain period to encourage more cashless transactions; and 3) decrease transaction limits on contactless payments. These measures should contribute towards the efficient functioning of the domestic financial system, and in turn, promote investments.

Going Green Sustainable Finance

The pandemic has also underscored the need to take care of our environment. A green and inclusive recovery will significantly enhance the resilience of our economies and societies in the face of both the severe recession and accelerating environmental challenges. Introduction of environmental, social, and governance (ESG) considerations in investment decisions is important as they correct for a market failure known as tragedy of the commons. ESG forces firms to consider the real cost to the environment and society that their activities impose.

This is especially relevant for the Philippines, which is extremely exposed to natural hazards and calamities. These could potentially spill over to the real economy and the financial system. Natural disasters interrupt the production activities of firms and households, increasing their financial vulnerability, reducing the value of their assets pledged as collateral for loans, and making it more difficult for them to repay their obligations.

Legislative Measures Attracting Investments

The legal environment should also provide a clear framework that encourages innovation and investment. The passage of the Senate Bill No. 2904, which seeks to

amend the Public Service Law is expected to boost the inflow of investments in the country. The Bill proposes to streamline and liberalize restrictions on ownership, management, and control of public utilities. This could potentially attract foreign investments in the areas of transportation, broadcasting, telecommunication, and power generation and supply. Likewise, the lifting of the open-pit mining and introduction of terms and conditions to ensure these will be environmentally and socially sustainable, will potentially encourage more investments in the country. There are other policy reforms that can be institutionalized through legislation and are now in the legislative pipeline. There should be strong support to these legislative proposals on capital market development, retail trade, secrecy of bank deposits, and other related initiatives. Indeed, an enabling legal and regulatory environment is crucial for investments to come and flourish in the domestic economy.

Conclusion

An investment-led growth could provide the necessary momentum to help address the health crisis and usher in the Philippines' economic recovery. Increasing investments by improving the country's investment climate can help the Philippine economy transition from the pandemic, mitigate its scarring effects, and establish the foundation for a healthier and more sustainable post-pandemic scenario.

This requires proactive efforts from both the public and the private sectors to improve governance practices and establish quality institutions. It also requires identification of economic areas that could urgently benefit from additional investments such as the in the health sector. It makes a lot of sense to attract the right kind of investments that have the highest potential to attain higher levels of growth and sustainability.

¹ The BSP estimates (as of January 2019) ICOR for the period 2010 to Q1 2019 at 3.9. This is significantly lower from 9.5 for the period 1989 to 1992.

² Survey was conducted 22 July – 31 August 2021.

³ The baseline used is the median value over the five-week period from 3 January to 6 February 2020.

⁴ Total investment is defined as gross capital formation.

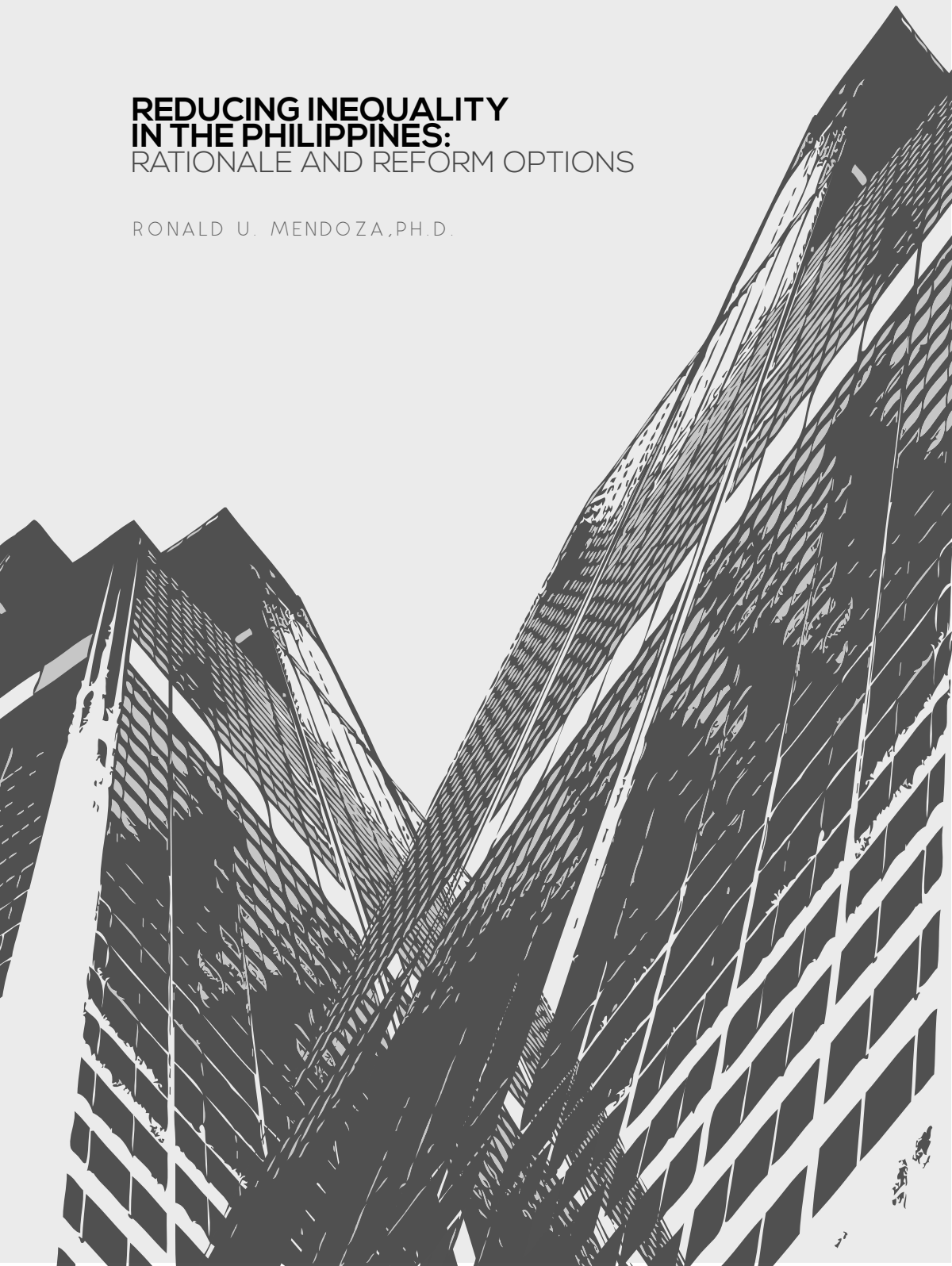
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REDUCING INEQUALITY IN THE PHILIPPINES: RATIONALE AND REFORM OPTIONS

RONALD U. MENDOZA, PH.D.



REDUCING INEQUALITY IN THE PHILIPPINES: RATIONALE AND REFORM OPTIONS

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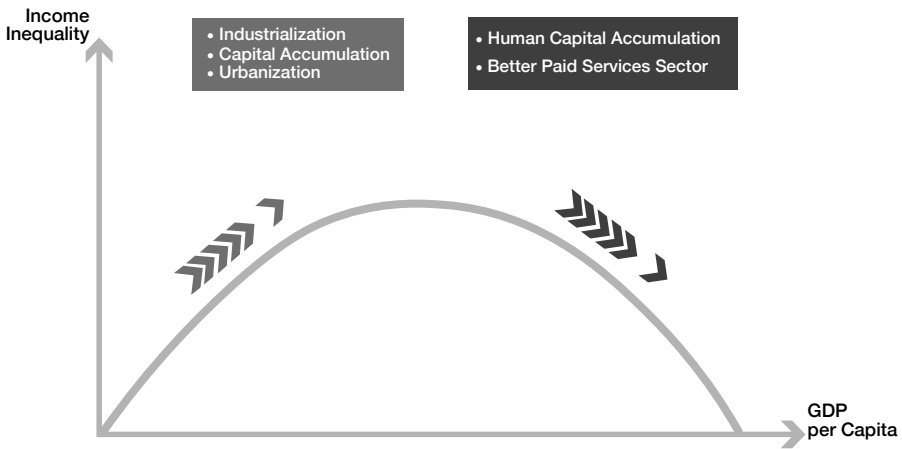
Poverty reduction has dominated development policy and planning in the Philippines for much of its history as a developing nation. Far less attention has been devoted to addressing and reducing inequality in its various forms. While poverty reduction is important, addressing inequality could also be critical for various reasons linked to the joint resilience of the country's economic and political systems. This article emphasizes the main rationale behind including and prioritizing inequality reduction among the Philippines' reform priorities. As the country struggles to recover from pandemic, inequality has invariably weakened its pandemic resilience while the protracted pandemic risk and economic slowdown also threatens to exacerbate inequality even further. Crises can turn into "inequality machines" that also create knock-on effects in the political system by weakening social cohesion and creating deeper divides that increase the chances for political instability.

In what follows, Section 1 describes the economics of Philippine inequality, and it summarizes the main channels through which economic inequality manifests itself in the country. Section 2 provides a framework to understand how the different forms of inequality may be linked to each other, and this in turn guides a possible theory of change on how to break free from the inequality trap. A final section outlines the key inequality-reducing reforms that could be pursued by the administration that takes over in June 2022.

Economic Lens on Inequality

In economics, inequality is often framed as an inevitable by-product of capital accumulation and economic growth. Kuznets (1955) theoretically outlined how developing countries would first experience higher income inequality while experiencing economic take-off. Higher levels of economic development later on would see inequality diminish (Figure 1).¹

Figure 1 . Kuznet’s Hypothesis of Inequality and Development



Source: Author’s elaboration based on Kuznets (1955)

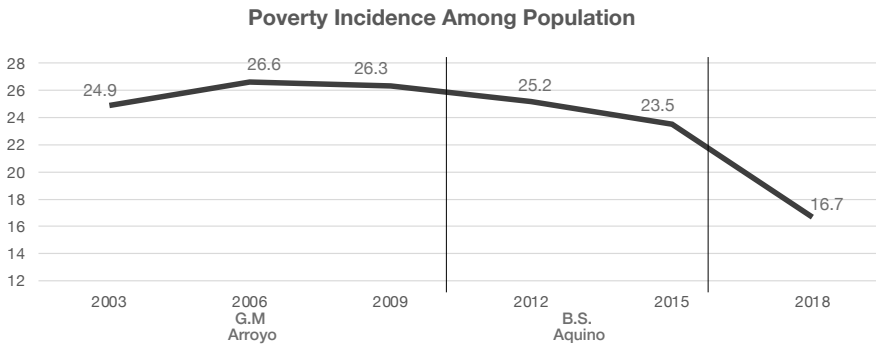
Since the Kuznets curve has been treated as received wisdom, policymakers often consider the dichotomous options of equality or efficiency (growth or redistribution).² Most countries that desire higher economic growth are expected to tolerate inequality at least in the early phase of growth.

More recent research offers a different view. Berg and Ostry (2011) empirically examined 140 countries from the 1950’s to the 2000’s, and they found evidence that income inequality shortens the growth episodes of developing countries by triggering social unrest and barring the poor from capital accumulation. In addition, various scholars have argued that there could be “good inequality” as well as “bad inequality”—that there are different “types of activities that lead to inequality, yet have different implications on economic development (Rodrik 2014; Weide and Milanovic 2014).³ For instance, innovation and technological

advancement could contribute to inequality, yet both activities are necessary for economic growth. Rent-seeking activities, on the other hand, could lead to economic concentration, and in turn stifle competition and eventually undermine inclusive growth.

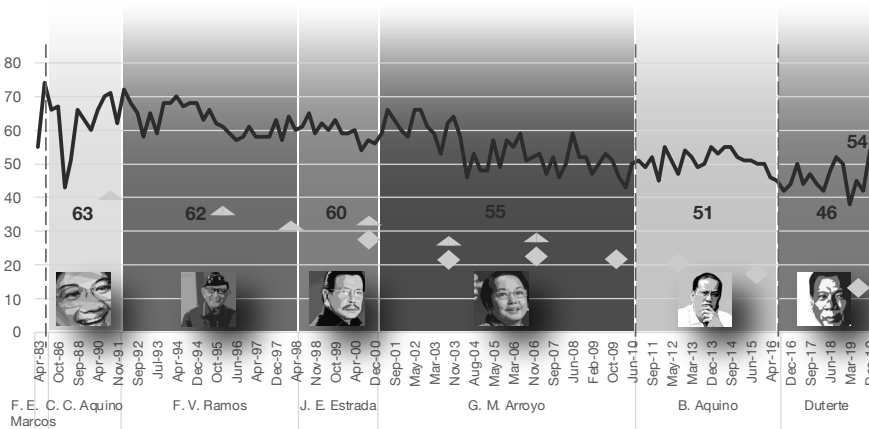
Despite the mixed evidence, many economic development plans remain primarily focused on economic growth and poverty reduction, with far less emphasis on inequality. Perhaps this is less surprising when one considers the deeper structural reforms necessary for addressing inequality (as the next section argues).

Figure 2. Pre-COVID-19 Official Poverty on the Decline



Source: Philippine Statistics Authority

Figure 3. Self-Rated Poverty (Pre-COVID-9)



Source: Social Weather Stations (SWS)

Inequality in Income and Human Development

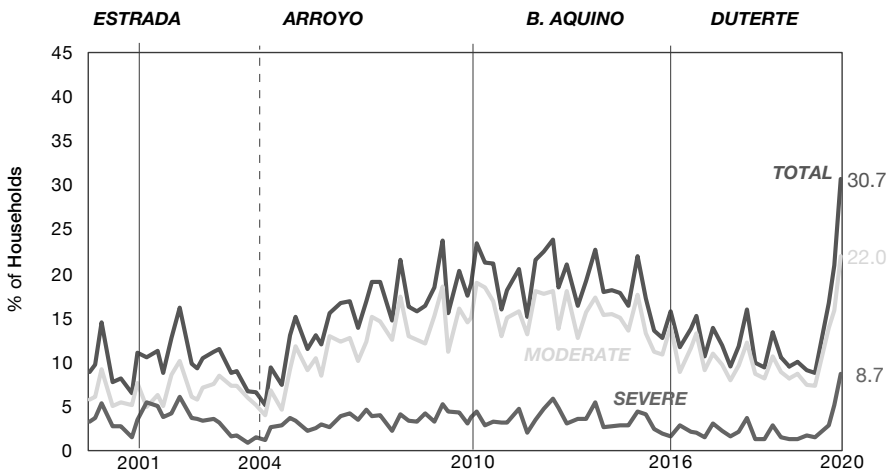
The Philippines has not been able to reduce poverty as aggressively as other Asian tiger economies, and both poverty and inequality have been stubbornly persistent over time. The official poverty figure prior to COVID-19 was around 17% of the population (Figure 2). Already, early studies of the impact of COVID-19 predict that the pandemic could push at least 1.5 million Filipinos into poverty.⁴

Social Weather Stations’ data on self-rated poverty illustrates how this declined from well over 70% during the tail-end of the Marcos administration to about 50% at the time prior to the pandemic (Figure 3). Most likely the pandemic lockdown and economic slowdown has caused this to spike again.

With regards to self-reported hunger, this increased under lockdown, reaching 30.7% at the national level (as of September 2020). Around 7.6 million Filipino households faced hunger in the last three months prior to the survey (Figure 4).⁵ Visayas (41%) and Mindanao (38%) faced even more hunger than the National Capital Region, despite COVID-19 cases being initially concentrated in urbanized Luzon.

The Philippines was in the bottom half of most unequal countries in the 1980s; and this further deteriorated so that by 2018, the country ranked in the top third of countries worldwide in terms of inequality.⁶ Unlike some of its ASEAN

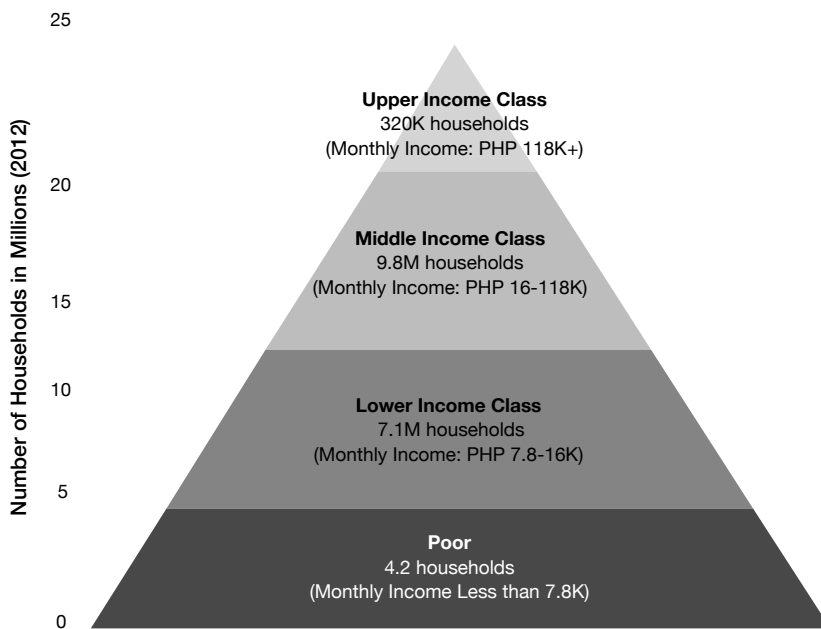
*Figure 4 . Self-rated Hunger
(July 1998 to September 2020)*



Source: Social Weather Stations (SWS)

neighbors that reduced both inequality and poverty in the past five decades, in the Philippines, inequality remained high, while poverty reduction has been painstakingly slow. The result is a highly skewed income pyramid, and a highly unequal society. Around half of Filipino households can be classified as poor and low income, living on less than PhP 16,000 a month. Meanwhile, only around 320,000 Filipino families live on PhP 118,000 per month or more (Figure 5).

Figure 5 . Looming Social Divide

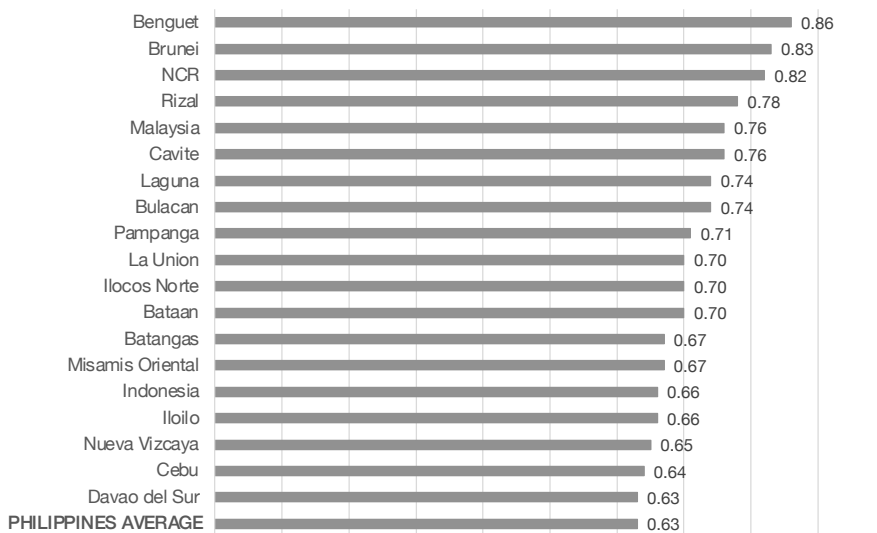


Source: Albert (2015)

Until around the 2000s, economic growth in the Philippines has improved. While the rising tide also lifted the incomes of some of the poor and low-income households, the brunt of the increase was skewed in favor of the upper income households and the already well-developed regions. Taken together, this provides the gist of the country's imbalanced growth.

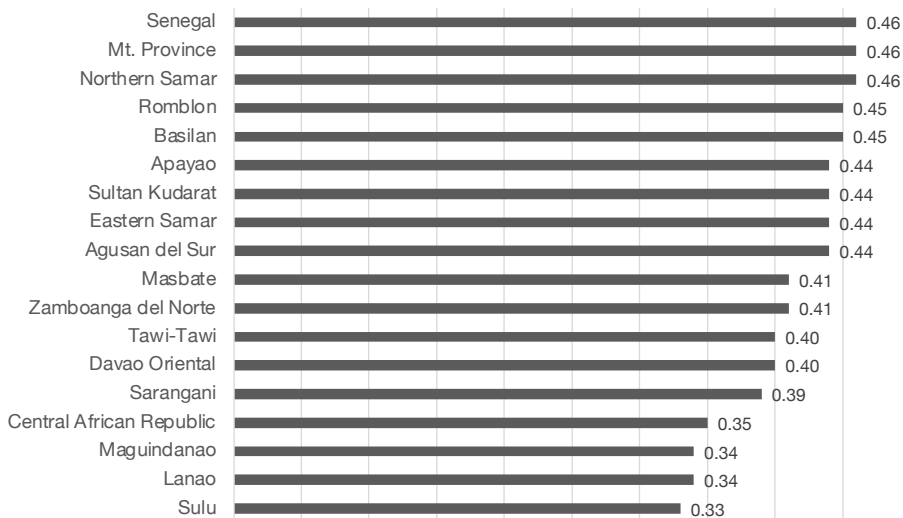
This is clear when examining geo-spatial disparities in Philippine income growth. Already richer regions grew faster than poorer regions, signaling a growing development gap with strong geographic features.⁷ The National Capital Region and provinces like Benguet and Rizal actually achieved human

Figure 6 . HDI in Rich Regions in the Philippines



Source: Human Development Network

Figure 7 . HDI in Poor Regions in the Philippines



Source: Human Development Network

development levels roughly comparable with fast-growing East Asian economies like Brunei and Malaysia. Nevertheless, other parts of the country—notably in Mindanao—lagged in human development (Figure 6).

Human development indicators in Sarangani and Maguindanao are roughly at par with conflict-prone Central African Republic. A Filipino child born in Tawi-Tawi can expect to live up to 54 years of age—a full 19 years shorter than the national average and 24 years shorter compared to children living in La Union province (Figure 7).⁸

Weak Social Safety Nets

What accounts for the divergence in income growth paths across regions and across socio-economic groups in the Philippines? Surely there are many factors to consider, but the evidence points to two in particular. The first has to do with the way crises and disasters have become recurrent features in the Philippines, considered by experts as among the most disaster-prone countries in the world. Worse, disasters and crises of different types (e.g., financial, economic, climatic, etc.) in the Philippines are typically followed by non-inclusive recovery. The poor are more likely to be adversely impacted by different types of aggregate shocks and crises—they have weaker resilience due to pre-existing vulnerabilities and less resources to draw from to protect themselves and their next generation. Clearly, crises without adequate safety nets for society contributes to greater inequality over time.

A second reason for the persistent inequality in the country has to do with the lack of upward mobility in the Philippine economy; and here the analogy is one of missing ladders so that poor Filipinos can continue their ascent in both income and human development. As illustrated earlier, poverty reduction results in less poor Filipinos, but many nevertheless get stuck in low-income status, in what has become a very skewed income pyramid. There is a very large lower income population in the Philippines, and it is becoming clear that the Philippine economy is unable to provide sufficient high-quality employment for a growing youth labor force that must then seek opportunities abroad, or face unmet ambitions at home.

Turning first to the unequalizing features of crises, we note here that the Philippines is ranked 9th in the World Risk Index in 2019, which ranks 180 countries in terms of vulnerability to disaster risk; and in terms of man-made factors that either build or weaken resilience to shocks. This is only a slight

improvement from ranking 2nd most disaster prone in 2014, and 3rd in 2015, 2016, 2017 and 2018.⁹

Disasters and crises inherently worsen inequality, particularly when social safety nets are weak and underdeveloped. What results often is that relatively richer sectors and communities have greater means for resilience, while already vulnerable communities and sectors tend to suffer the full brunt of these aggregate shocks. Geographically, there is also evidence that better governed and managed jurisdictions are also more resilient to crises.

Weak and non-inclusive recovery periods were in many cases characterized by children and young people dropping out of school, never to return; undernourished infants and children whose cognitive abilities would be permanently constrained throughout the rest of their lives; and countries whose taxpayers would be saddled with debt, having socialized the bail-out of excesses generated by the financial sector, or the corrupt, or both.¹⁰

There are troubling signs that history is repeating itself under the present pandemic and economic slowdown. Under lockdown, there is a deep divide between the technology “haves” and “have-nots”, creating a demarcation in resilience and crisis coping across students, workers, firms and communities. Just to illustrate, several million students may be unable to enroll during the lockdown, due to factors such as lack of connectivity. As Damien Barr, a columnist for the Guardian, amply noted: “We are not all in the same boat. We are all in the same storm. Some are on super yachts. Some have just the one oar.”¹¹

Crisis responses that strengthen systems, such as those that provide adequate social protection, education and health services, also preserve the economy’s main ingredients for inclusive and robust growth for the longer haul. Whether it is called “human capital” or “human development”, protecting the population from the worst impact of any crisis also inevitably strengthens the resilience of both society and the economy from future shocks. The absence of social safety nets feeds into non-inclusive recovery, which then exacerbates the “bad inequality” that weakens long run growth.

Missing Ladders For Upward Social Mobility

In addition to social safety nets for those that may fall lower in the income and human development levels during a crisis, one could also examine whether

an economy has the right structures that enable citizens to continue to ascend the income and human development ladder. The structure of the Philippine economy affects the inclusivity of any growth it manages to achieve. The apparent concentration of wealth that is associated with weaker competition in the market economy, and high risk of rent-seeking both conspire to produce an economic environment that is less likely to be spurred by productivity enhancing innovations and job creation. Instead, wasteful rent-seeking and political connection building dominates the landscape and undermines the nation's chances for stronger job creation. This is often referred to as oligarchy and it is the second pernicious aspect of Philippine inequality.

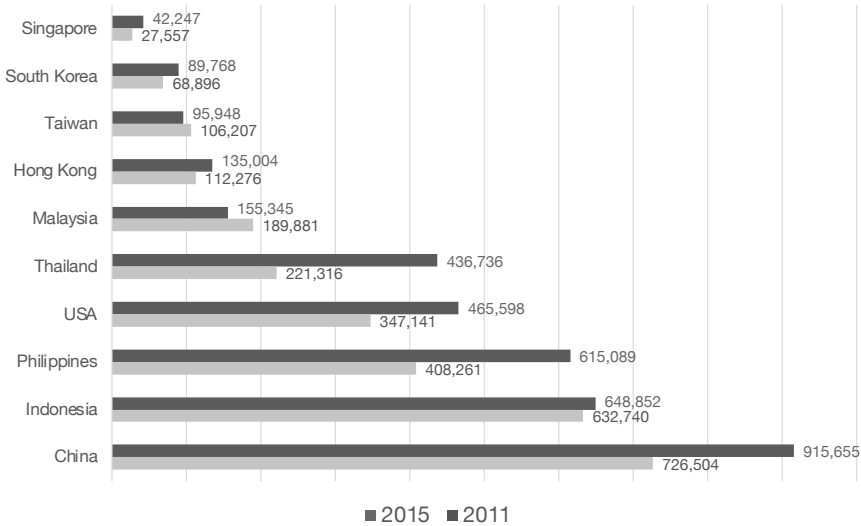
The philosopher Plato defined oligarchy as a system whereby the majority are poor and disempowered, while a small ruling class consolidates power and subverts laws to press their own interests over the common good. More recent conceptions of oligarchs refer to a wealthy class – usually but not exclusively in business – that exercise control over key parts of the economy and could exert strong influence over the government itself. Russia's Magnificent 7 who controlled much of Russia's banking system in the post-Soviet Union transition period, and China's princelings who are comprised of children of the original high-ranking Communist officials during the country's cultural revolution are among the possible examples. The relationship of business and political oligarchs to these countries' development is complex—while they mobilize capital for investments and also generate jobs, they also tend to constrain competitiveness by thriving on protection and rent-seeking.

How much do business oligarchs dominate their respective economies? Without condemning all wealthy people to the term, let us at least take a look at a few indicators of potential concentration of economic wealth and power. Jeffrey Winters developed a "material power index." This is the ratio of the average wealth of the top 40 richest individuals to the country's GDP per capita. Using this indicator, China, Indonesia and the Philippines stand out in this small sample of countries shown here (Figure 8).

The extreme wealth of such a small group is not necessarily detrimental to development goals. The key issues here lie in the behavior of these businesses as regards competition; the structures that generated this wealth and the resulting disparity; and how this disparity affects the citizenry. Here, context really matters.

International studies on business oligarchs show a very complex picture of their

Figure 8. Material Power Index (2011-2015)



Source: Author's elaboration using data from Forbes.com

relationship with national development. Scholars such as Daron Acemoglu note how democratic systems will likely eventually outperform oligarchies despite the latter's initially aggressive growth.¹² The reason is that in the long run, oligarchies create institutions that inhibit innovation and competition.

It is therefore more useful to identify and analyze "oligarchic behavior" rather than any particular business oligarch. Stifling competition is the key oligarchic behavior to stamp out. However, a firm being large, per se, is not necessarily detrimental to inclusive development, as evidenced by the developmental role of big business among the Asian tiger economies.¹³

In the Philippines, oligarchic behaviors include: securing government contracts through personal connections, illegal activities like insider trading, and capturing regulatory institutions in order to extract "sweetheart deals". This has been referred to as "booty capitalism" and "crony capitalism."¹⁴

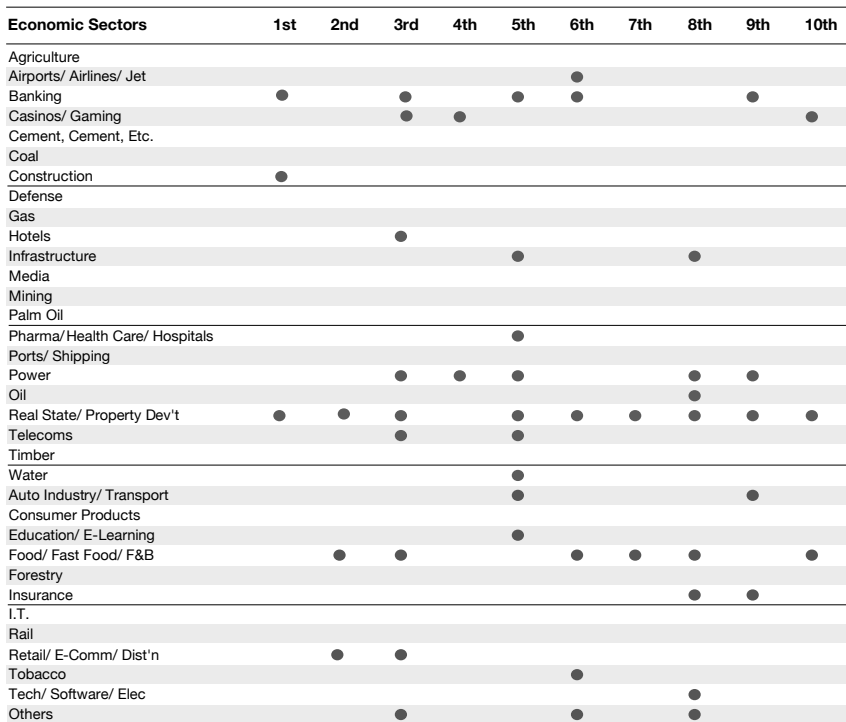
In early literature on the Philippines, it was clear that political leaders gave advantages to business cronies in ways that also helped to consolidate political power.¹⁵ The presence and impact of business oligarchy is also focused on economic structure and anti-competitive behavior. To help illustrate this, Figure

9 shows the top 10 wealthiest individuals in the Philippines, and the key economic sectors where they have invested in. (Their names are not shown here, only their wealth ranking from 1st to 10th). The economic sectors are categorized into two broad groups, drawing on the extensive literature on rent-rich (marked as red), vs more competitive sectors (marked as blue). Banking, construction and real estate are among the rent-rich sectors. Automotive manufacturing, education and electronics are among the competition-rich sectors.

A visual map of the top billionaires in the Philippines, now compared to those in Malaysia, Indonesia and Thailand suggests that many of these nations' billionaires still have a stake in rent-rich sectors. Thailand stands out perhaps with less "red" and more "blue" in terms of its billionaires' economic footprint.

A snapshot of how the billionaires in the Philippines compare to industrialized countries like the USA and South Korea shows a very different picture. The

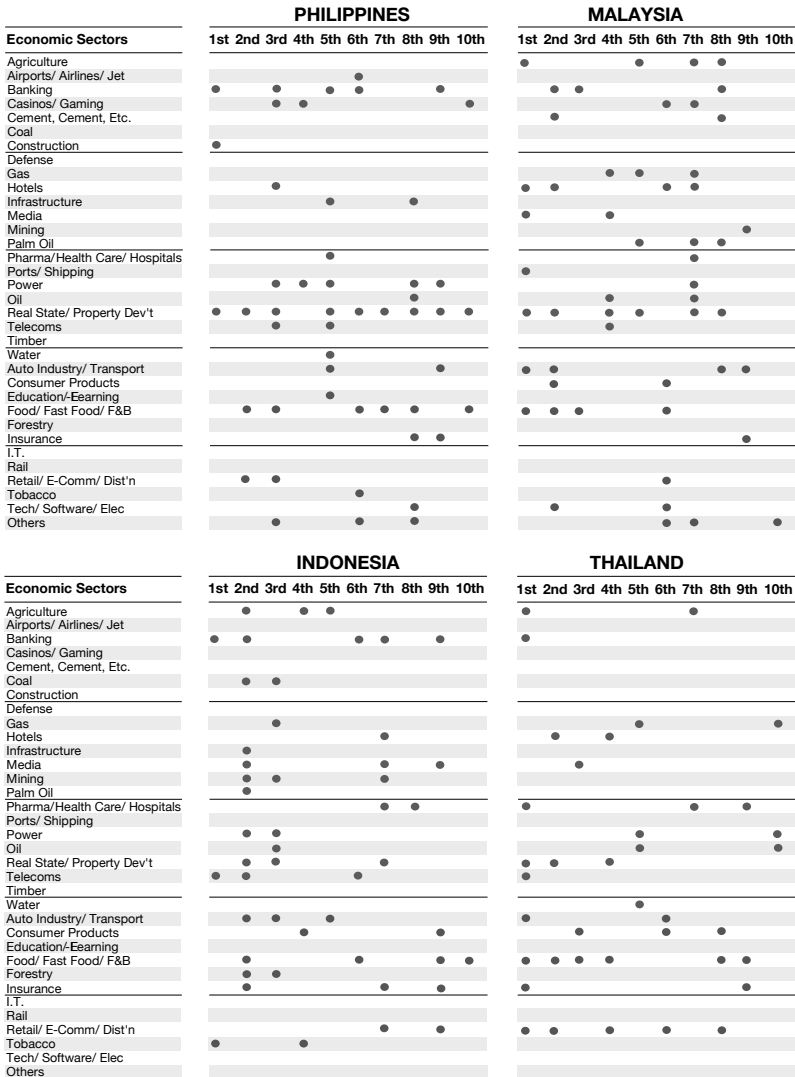
Figure 9. Top 10 Billionaires in the Philippines



Source: Ateneo Policy Center mapping based on information from Forbes.com

advanced countries in the map have wealthy individuals that are now largely focused on sectors with more competition, and driven by innovation (Figure 11). Some of the wealthiest in the Philippines are engaged in banking and real estate and property development. Very few of the wealthiest in the US and South Korea

Figure 10 . Billionaires in the Philippines compared to Malaysia, Indonesia and Thailand

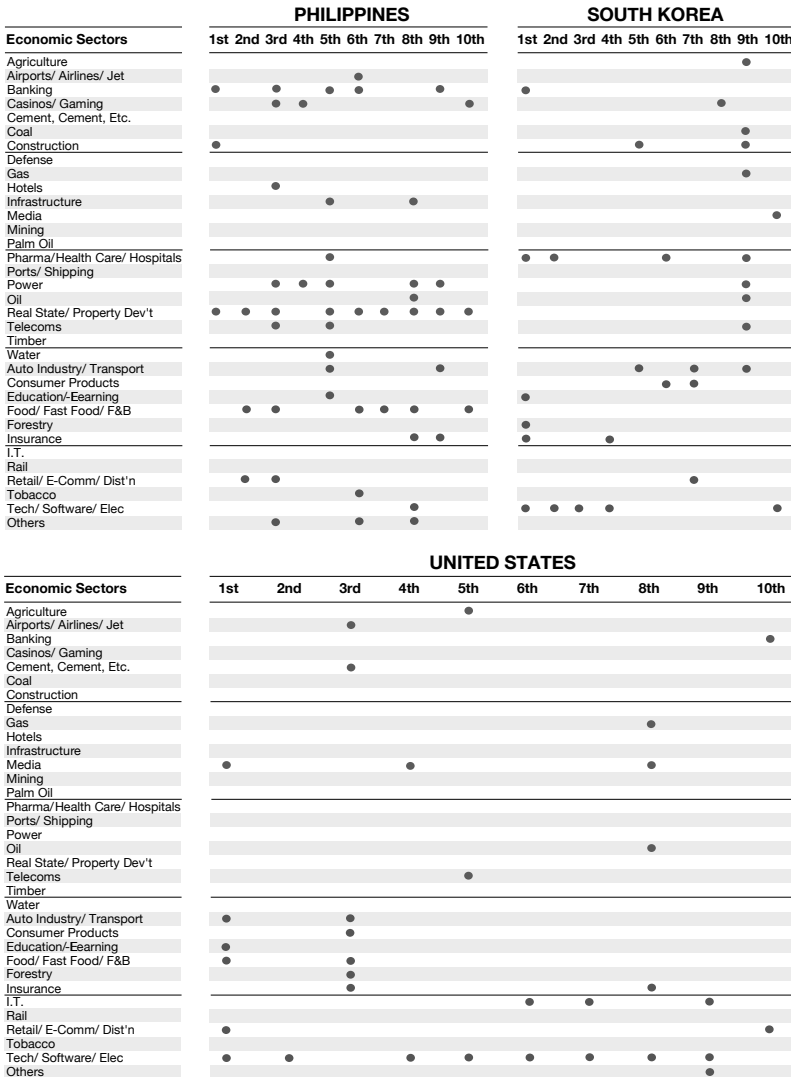


Source: Ateneo Policy Center mapping based on information from Forbes.com

have stake in these sectors. In the US, 8 of their top 10 wealthiest are invested in technology and software, while in South Korea, 5 of their top 10 wealthiest have investments in this sector.

This is prima facie evidence of how the source of wealth could differentiate

Figure 10 . Billionaires in the Philippines compared to the United States of America and South Korea



Source: Ateneo Policy Center mapping based on information from Forbes.com

the kind of wealth creation and subsequent inequality in a country. One is based on innovation and productivity, while the other type of wealth creation is often heavily-influenced by political connections, rent-seeking and protectionism. This is probably a useful way of describing “good inequality” vs. “bad inequality”. Good inequality thrives in competition and relies on innovation to push productivity and a growing economic pie. Bad inequality does not necessarily push growth and innovation, and instead rent-seeking may dominate, eventually limiting growth prospects while concentrating wealth in favor of the economically and politically well-connected and powerful.

Perhaps one of the best cures for oligarchy is the resurgence of genuine competition in the market economy. A key institutional innovation that could encourage this is the creation of a strong and independent competition authority that effectively levels the playing field by preventing abuses of market power and other anti-competitive behaviors. Incentivizing big businesses to seek export markets is another means to foster competitiveness. Opening up the economic environment also leads to greater competitive pressure for big businesses. This could force them in the direction of innovation rather than rent-seeking.

Political Lens on Inequality

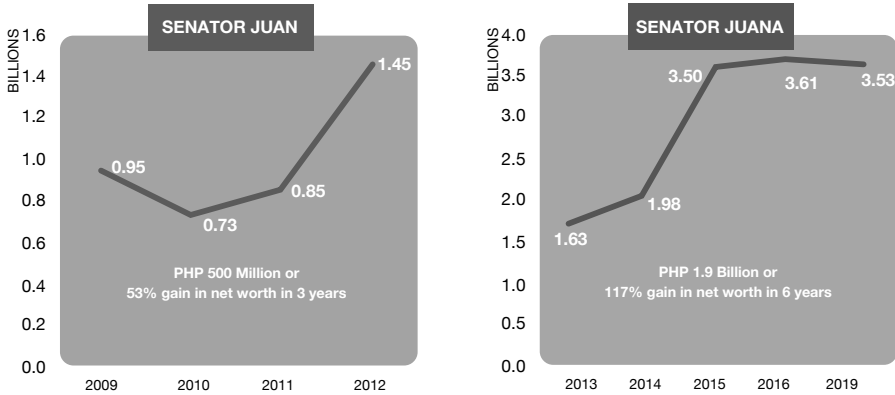
Political dynasties are extensively analyzed in the political science and sociology literature, notably by Hollnsteiner (1963), McCoy (1994), Rivera (1994), Balisacan and Fuwa (2004), Querubin (2016) and Teehankee (2001).

Recent empirical research by Asian Institute of Management (AIM) and Ateneo researchers on dynasties in the Philippines found very sobering evidence of what political inequality in the Philippine countryside looks like. Our data-intensive 2012 study of political dynasties in the House of Representatives suggests that about 80% of dynastic legislators increased in their net worth from 2003 to 2007. This increase was so remarkable that half of the sample’s asset growth beat the returns from investing in the Philippine Stock Exchange.¹⁶

Updated figures reinforce this picture of privilege and power. Based on their self-declared statement of assets, liabilities and net worth, some dynastic legislators in both the lower and upper houses of Congress have experienced phenomenal growth in their wealth while in office. A certain dynastic Senator had a reported

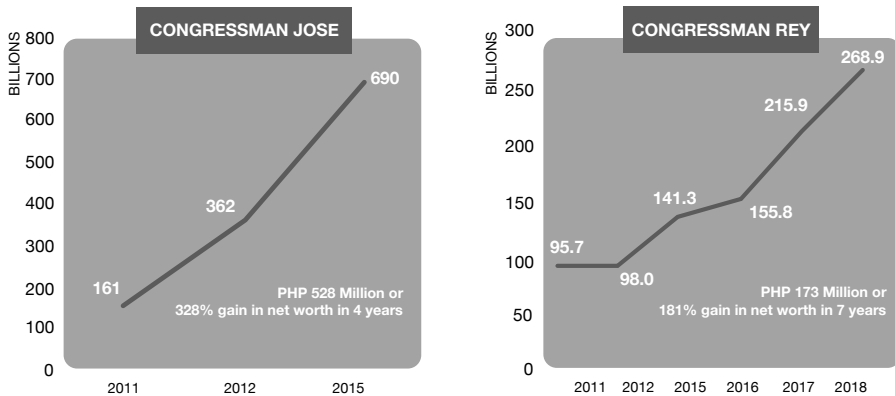
wealth increase of over PHP 500 million in 3 years, while another saw her wealth grow by PHP 1.9 billion in a span of just 6 years. Would it surprise us that these Senators were husband and wife (Figure 12)?

Figure 12 . Selected Senators' SALN



Source: Author's compilation based on data from SALN reports

Figure 13 . Selected Congressmen's SALN



Source: Author's compilation based on data from SALN reports

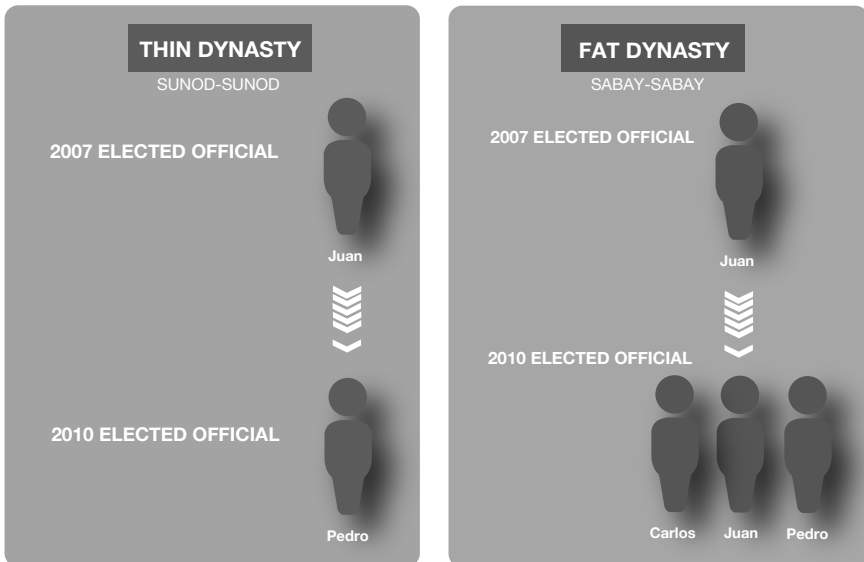
The Statements of Assets, Liabilities and Net Worth (SALNs) of selected dynastic Congressmen revealed an even more impressive buildup of wealth. In just one term (3 years), their wealth grew by almost 200% to over 300%. If these

Congressmen were listed in the Philippine stock exchange, then they would put most blue-chip stocks to shame (Figure 13)!

When only the wealthy dominate elected public office, and when their wealth while in office expands dramatically, then there are clear imbalances in political power. Checks and balances are critically important in order to avoid possible conflicts of interest and prevent positions of power from being abused.

Our studies tracking political dynasties also show that they win in elections by much larger margins of victory, probably owing to distinct advantages due to incumbency and in some cases the sheer number of family members already serving in office. In the words of one non-dynastic Mayor who described this to me some time ago: “*Sa eleksyon, hindi lang isa ang kalaban ko, lima sila.*” (In an election, I am not just up against one, they are five.) In our research we have begun to track “thin dynasties” (*sunod-sunod*) and “fat dynasties” (*sabay-sabay tumatakbo at nanunungkulan*) (Figure 14).

Figure 14 . Comparison Between Thin Dynasty and Fat Dynasty



Source: Author's elaboration

If we define “fat dynasties” as those political clans with at least two elected members in office, then fat dynasties already dominate most of the local government. 80% of Governors, 67% of Congressmen, 53% of Mayors and 40%

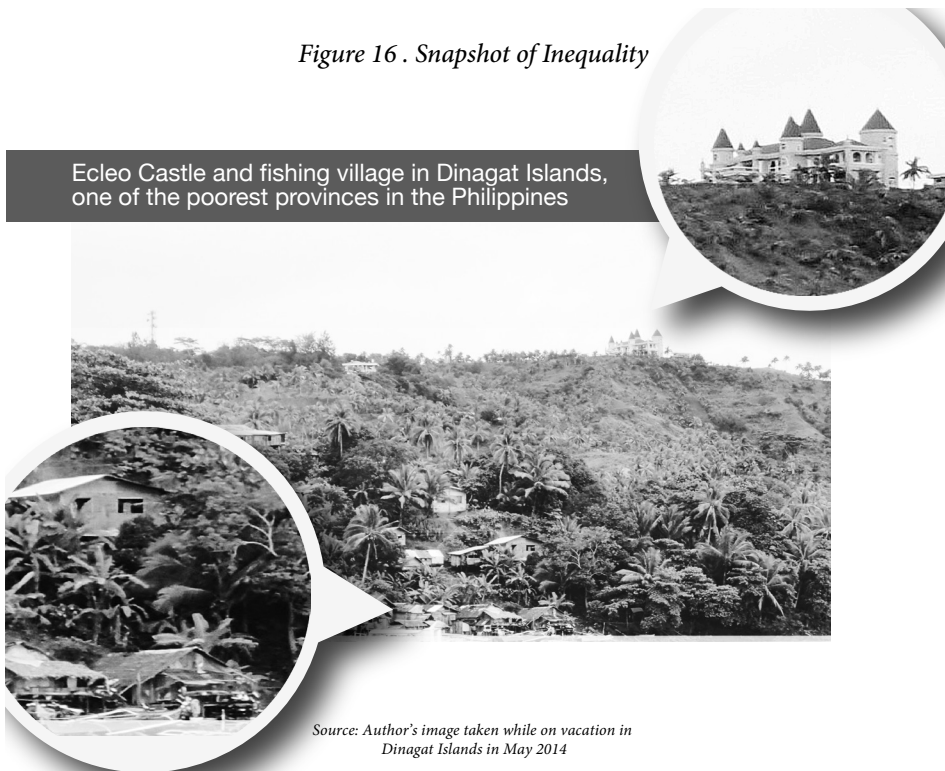
*Figure 15 . Fat Dynasties in the Philippines
(2004 to 2019)*

Position	2004	2007	2010	2013	2016	2019
Governor	56.96%	55.00%	71.79%	82.50%	76.25%	80.25%
	8.86p	1.96%pp	16.79pp	10.71pp	6.25pp	4.00pp
Vice Governor	53.85%	48.10%	52.56%	65.00%	53.16%	67.90%
	7.10pp	5.75pp	4.46pp	12.44pp	11.84pp	14.74pp
Provincial Board Member	39.78%	37.73%	42.90%	41.95%	45.95%	45.20%
	0.25pp	2.05pp	5.17pp	0.95pp	3.82pp	0.57pp
HOR Congress	48.11%	50.00%	55.56%	56.84	55.60%	66.67%
	6.48pp	1.89pp	5.56pp	1.28pp	1.24pp	11.07pp
Mayor	39.56%	41.15%	47.84%	48.87%	50.81%	53.38%
	1.83pp	1.59pp	6.69pp	1.03pp	1.94pp	2.57pp
Vice Mayor	27.84%	29.10%	34.06%	36.17%	38.99%	38.91%
	1.03pp	1.26pp	4.96pp	2.11pp	2.82pp	0.08pp
Councilor	20.85%	20.22%	22.51%	22.63%	22.71%	23.15%
	0.10pp	0.63pp	2.29pp	0.12pp	0.08pp	0.44pp

Source: Ateneo Policy Center Dynasties Dataset

Figure 16 . Snapshot of Inequality

Ecleo Castle and fishing village in Dinagat Islands, one of the poorest provinces in the Philippines



Source: Author's image taken while on vacation in Dinagat Islands in May 2014

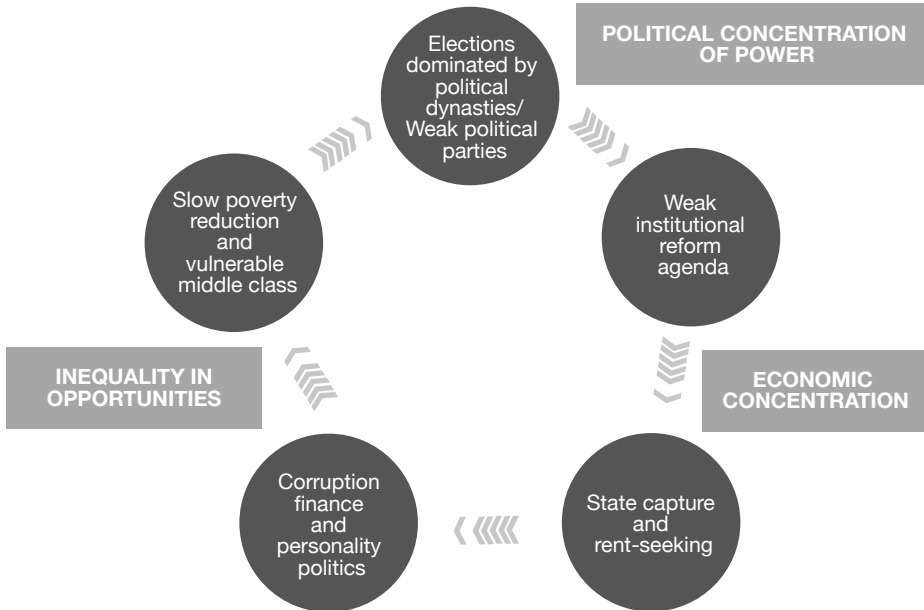
of Vice Mayors are from fat dynasties (Figure 15).

A concerning development, which could link political dynasties to income inequality, is that Philippine political dynasties are more prevalent in regions with relatively higher levels of poverty (Figure 16). Do poor people vote for dynasties? Or do dynasties fail to reduce (or even worsen) poverty? Recent empirical evidence both in the Philippines and abroad suggest that the balance of causality flows from dynastic leadership to higher poverty, yet context here matters significantly. The dynasties to poverty link is likely significant in places where few checks and balances are left to temper the concentration of political power. Our ongoing study suggests the negative impact of dynasties is strongest in Visayas and Mindanao.

We hypothesize that some form of competition, either in elections or through democratic checks-and-balances by stakeholders (for instance business, media, academe, civil society organizations) could probably temper this negative relationship. Hence, similar to the market economy which requires healthy competition to prevent “bad inequality”, the political system also requires a healthy degree of competition in order to prevent imbalanced political power and the bad governance and underdevelopment that this is associated with.

Focusing a political lens on inequality allows us to appreciate how the main forms of inequality in the Philippines—social, economic and political—may actually constitute an “inequality trap” given these various imbalances appear to be mutually reinforcing in their overall development impact. First, elections are characterized by strong political dynasties and weak political parties, leading to weaknesses in informed voting. Elected leaders, in turn, are not held accountable to clear reform agendas, and instead are likely to be captured by different economic interests who funded their campaigns. (For some leaders, they themselves possess economic interests and businesses within the political clan, representing an even stronger form of “state capture”.) This governance environment is likely to be abused by rent-seeking and personality politics. That in turn weakens the drive for stronger public service provision, due to leakages and weak governance in implementation of policy reforms. Finally, many citizens remain mired in patronage politics, making them susceptible to manipulation and cooption during elections. Put simply, political concentration of power leads to, or at least tolerates, economic concentration, which in turn produces an economic environment that is characterized by inequality in economic opportunities.

Figure 18 . Cycle of Inequality



Source: Author's elaboration

Framework for Inequality Reduction

The foregoing discussions on weak social safety nets, missing ladders for upward social mobility, and persistence of political dynasties described some of the key features and drivers of Philippine inequality. The implications go well beyond economic policy and touch on the resilience of democracy itself. Recent research shows how income inequality threatens the democratization of a country. Scholars argue that “democracies are less stable in societies that are more unequal to begin with, in societies in which household income inequality increases...and in societies in which labor receives a lower share of value added in manufacturing.”¹⁷

Meanwhile, others have pointed out how economic inequality leads to political instability and democratic regress.¹⁸ There is empirical evidence for countries with high levels of inequality to oscillate between democratic and autocratic regimes.¹⁹

Furthermore, redistribution appears to be more prominent in economic policy discussions these days for many reasons, including the populist wave pushing

back against globalization. Rodrik (2018) observes how “the redistributive effects of liberalization get larger and tend to swamp the net gains as the trade barriers in question become smaller.” Pushing globalization faster than our institutions could be set up, to protect and give sufficient agency to the marginalized, could generate backlash.

Political institutions are particularly important to give agency to those on the marginalized end of the inequality divide. If they become voiceless and powerless, the ramifications could include populism. Piketty (2018) discussed how populists have effectively mobilized marginalized communities in political campaigns. In their inability or unwillingness to resolve inequality, major political parties end up losing their credibility as an advocate for these sectors. Yet populist leaders often prioritize unsustainable redistribution without any effort to address what caused inequality in the first place. In the end, this further derails the country away from sustainable economic development (Mendoza, 2018).

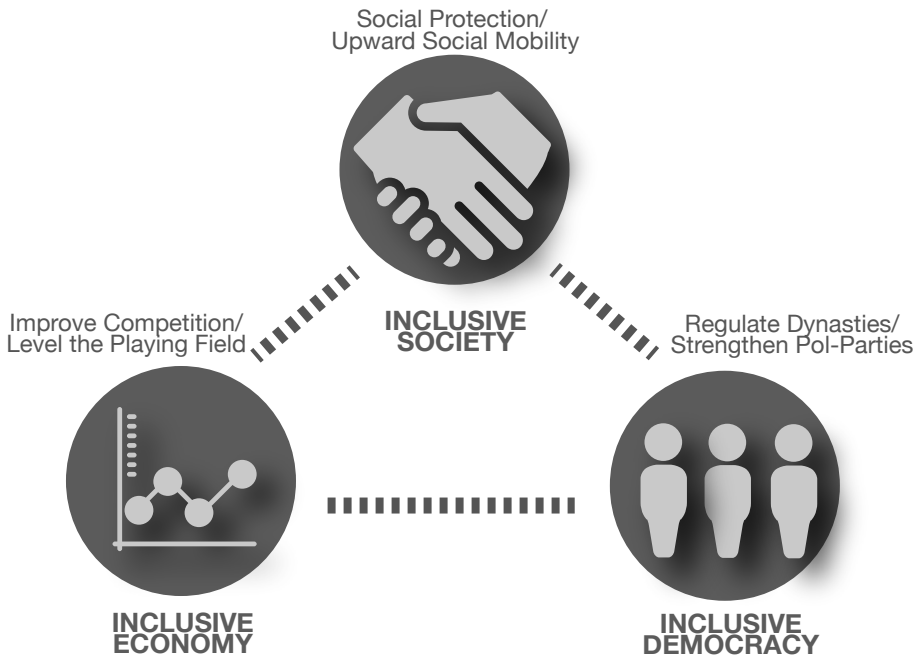
Drawing on the discussion, there at least three main areas for possible reform engagement. (See Figure 19)

The first area seeks to promote more inclusive societies by building inclusive education, healthcare and social protection systems as national public goods that promote social cohesion and resilience to crises and disasters. These investments inevitably redound to economic competitiveness and sustained economic growth and development in the longer run as well. Reforms in this area prevent citizens from falling through society’s cracks by creating a strong social safety net that enables greater resilience.

The second area tackles the reforms and regulations towards a more inclusive and competitive market economy, promoting greater competition, where rent-seeking is minimized while innovation, productivity and job-creation become the main goals for big business. Here the reforms focus on building ladders for stronger upward social mobility for citizens, so they are not stuck in low-income status and vulnerability and citizens’ aspirations are better matched by economic opportunities provided to them at home.

A third area focuses on promoting political and institutional reforms to help de-concentrate political power in the hands of a few families, and instead to empower citizens and promote a more inclusive democracy. Inclusive democracies have stronger checks and balances and can be expected to promote political stability in the long run. Reforms here are expected to create positive feedback onto other

Figure 19 . Inclusion vs. Inequality



Source: Author's elaboration

reform areas that also seek to mitigate inequality and strengthen social cohesion, fairness, and democratic empowerment of citizens.

Similar to the inequality trap scenario, the reform scenario described here is also mutually reinforcing—a spiral of citizens' empowerment along the social, economic and political spheres that tends to support sustained and inclusive economic growth and development.

Reform Recommendations Moving Forward

Analysts note how every administration in the Philippines comes in with a reform agenda that is not necessarily grounded in a theory of change. In fact, the reform effort has been dominated by economic reforms (and notably the legislative aspects) and reform approaches seem to follow a “fill in the gaps” approach (Mendoza and Olfindo, 2018; Yusingco et al 2021).

In the theory of change that guided the governance and institutions chapter of the country's long-term vision document, *Ambisyon2040*,²⁰ political and electoral reforms were introduced as “second round reforms” that address deep-seated structural weaknesses. The priority in the “first round” focused on reforms that boost job creation and help to enhance human capital. This approach implicitly assumes that predominantly economic reforms that boost economic growth and create the conditions for poverty reduction and an emerging middle class would also create the constituency for more aggressive reforms to tackle structural weaknesses in the market economy and political institutions. In fact, a comprehensive analysis of legislative reforms in the post-1986 period showed that economic reforms did indeed trump political reforms as a longstanding priority by reformists (Yusingco et al 2021).

With new international evidence and the glaring levels of inequality in the Philippines reviewed here, and the risks brought about by severe division and threat to democratic institutions due to populist politics, it is self-evident that deep political reforms must be prioritized sooner in order to help preserve and sustain economic and democratic reform gains in the past over three decades. As elaborated in this paper, inequality in its different forms, most notably in the political sphere, could derail economic growth and development by creating the conditions for impunity and severe political instability. The implication and main adjustment proposed here is to prioritize important political reforms and to pass them at the soonest possible time.

Based on several recent reform assessments (e.g., Atienza and Cats-Baril 2020 and Mendoza and Olfindo 2018), Table 1 lists some of the key reform priorities and their status. The legislative reforms are grouped according to those passed, notably under the Duterte administration, those not yet passed, and the first time the reform was filed in Congress. The latter provides a possible indicator of how some reforms are longstanding and yet continue to be delayed. This raises the issue noted by some analysts that the 1987 Constitution is not the main problem, rather the malfunction lies in the continued failure to implement ancillary reforms that were meant to complement and underpin it.²¹ Key political and governance reforms that have been longstanding and should therefore be prioritized include political party reform, freedom of information and dynasty regulation. To this short list, and in light of new technologies in social media that have become available powerful tools in the political sphere, campaign finance reforms should be included.

Table 1 . Legislative Reforms Deemed Critical and their Status as of 2021

REFORMS	AREA OF THE CONSTITUTION SUPPORTED	STATUS	FIRST FILED IN CONGRESS
TRAIN1 Law	Economic development, taxation	Passed as R.A. 10963 and signed into law on 14 December 2017	First of four reforms for the amendment of the National Internal Revenue Code of 1997
Bangsamoro Basic Law	Peace building, equity and development	Passed as Republic Act 11054 and signed into law on 26 July 2018	First filed during the 16th Congress (2015)
Rice Tariffication Law	Price stability, food security	Passed as Republic Act 11203 and signed into law on 14 February 2019	Tariffication of rice was negotiated for a 10-year extension with the World Trade Organization in 1996 (ended in 2017 after another extension of 5 years)
Universal Health Care Law	Poverty reduction, social justice and social protection, right to healthcare	Passed as Republic Act 11223 and signed into law on 20 February 2019	First filed during the 15th Congress (2011)
4Ps Law	Poverty reduction, social justice and social protection	Passed as Republic Act 11310 and signed into law on 17 April 2019	First time filed during the 17th Congress but the 4Ps has been initiated by Arroyo in 2007 then expanded on a national scale by Aquino in 2010
Coco Levy Trust Act	Development of local industries, social justice	Passed as Republic Act 115421 and signed into law on 26 February 2021	First filed during the 15th Congress (2011)
CREATE	Economic development, taxation	Passed as Republic Act 11534 and signed into law on 26 March 2021	Second of four reforms that amend NIRC of 1997 (section 20)
Political Party Reform Law	Real competition among parties, representation of national interest	Filed by the 17th Congress but not yet passed	First filed during the 12th Congress (2002)
National Land Use Law	Equitable access to economic opportunities, food security	Filed by the 17th Congress but not yet passed	First filed during the 9th Congress (1992)
Rightsizing the National Government	Efficient delivery of public goods, limited bureaucracy in providing public service	Filed by the 17th Congress but did not pass	First filed during the 13th Congress (2004)
Freedom of Information Law	Accountability, minimizing corruption, right to information public concerns	Filed by the 18th Congress but not yet passed	First filed during the 14th Congress (2010)

Source: Yusingco et al (2021:9-10)

In the final analysis, inequality is of interest not merely because of a desire for a more equal distribution of wealth. Inequality itself can derail economic growth, breed populism and weaken social cohesion. For these reasons, the challenge of our generation is no longer simply about reducing poverty. Reducing inequality is the key to political stability, crisis resilience and sustained economic development.

¹ Kuznets (1955).

² See Acemoglu and Robinson (2002) and seminal work by Okun (1975).

³ See also and van der Weide and Milanovic (2014).

⁴ Abad (2020).

⁵ “The 30.7% Hunger rate in September 2020 is the sum of 22.0% (est. 5.5 million families) who experienced Moderate Hunger and 8.7% (est. 2.2 million families) who experienced Severe Hunger. Moderate Hunger refers to those who experienced hunger “Only Once” or “A Few Times” in the last three months. Meanwhile, Severe Hunger refers to those who experienced it “Often” or “Always” in the last three months.” See Social Weather Stations (2020).

⁶ Mendoza (2019).

⁷ Domingo (2019).

⁸ Banaag, Dayrit, and Mendoza (2019).

⁹ Radtke (2019).

¹⁰ Mendoza (2011).

¹¹ <https://www.damianbarr.com/latest/https/we-are-not-all-in-the-same-boat>

¹² Acemoglu (2008).

¹³ See Stiglitz (1996) and World Bank (1993).

¹⁴ Hutchcroft (1998) and Krueger (2002).

¹⁵ Manapat (2020) and De Dios et al (1984).

¹⁶ Mendoza et al (2012).

¹⁷ See Bollen and Jackman (1995:987) and Muller (1995).

¹⁸ See Boix (2003) and Alesina and Perotti (1996).

¹⁹ Dutt and Mitra (2008).

²⁰ With his Executive Order 5, President Duterte approved and adopted Ambisyon2040 as the guiding framework for development planning. See <https://www.officialgazette.gov.ph/2016/10/11/executive-order-no-05-s-2016/>.

²¹ <https://www.rappler.com/nation/congress-constitution-christian-monsod-charter-change-senate-hearing>

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**BUILDING BACK BETTER
TOWARDS INCLUSIVE GROWTH**
WITH INNOVATIVE
PUBLIC SECTOR GOVERNANCE

CHARLOTTE JUSTINE DIOKNO-SICAT, PH.D.



BUILDING BACK BETTER TOWARDS INCLUSIVE GROWTH WITH INNOVATIVE PUBLIC SECTOR GOVERNANCE

CHARLOTTE JUSTINE DIOKNO-SICAT, PH.D.

With the Philippines still managing the now endemic COVID-19 while trying to sustain economic recovery of 5.3% in 2021 (from a slump of 9.5% in 2020) amid the surge in public debt to GDP (or public debt ratio) of 60.5% (necessary to keep the economy afloat because of the pandemic crisis), there will be two major shifts in public sector governance in 2022. First, there will be a new administration with a newly elected President, Vice-President, national legislators, and local government officials. Second, the Mandanas-Garcia Supreme Court (or Mandanas ruling), which broadens the base on which to compute the intergovernmental fiscal transfer to local governments (LGUs) called the national tax allotment (NTA), will be implemented. The latter impacts fiscal space and therefore requires the new administration as well as local officials to engage in strategic spending anchored on the need for fiscal consolidation.

Good governance, public, private and its hybrid, all play a vital role in sustained inclusive growth. Innovative governance goes a step beyond allowing agility in the delivery of goods and services, public and market alike. Given the breadth of governance's definition to include an organization or organized societies, institutions, processes, members, and formulated policies and allocating resources, there are many ways this can make an impact.

This chapter focuses on public sector governance and surveys recent literature with the aim of answering the question "How can the Philippines build back

better towards inclusive growth with innovative public sector governance?” There are many ways to answer this question, but these must be grounded on a common definition of innovative governance and current national and local government fiscal positions both to be discussed in Sec. 2. The rest of the chapter is organized around answers focused on national government (Sec. 3); local government (Sec, 4); and institutional and cross-cutting issues (Sec. 5). Each of the sections will provide a brief discussion of economic principles justifying the role of government.

Philippine National And Local Government Fiscal Positions And Innovative Governance

It is important to establish the current fiscal position of Philippine government, and at the same time, innovations in governance must be defined to be able to identify ways forward for the incoming administration.

National Government

Though the Philippines has had fiscal deficits (difference between national government revenues and expenditures) for most of the past 40 years (except for 1995 to 1997 before the Asian Financial Crisis), the largest deficit of 9% of GDP occurred in 2021 because of the COVID-19 pandemic (Figure 1). This was because of the economic slowdown resulting from the measures (e.g., lockdowns) needed to control the spread of COVID-19 impacted national government revenues with revenue effort dropping from 15.9% to 14.5% in 2021 coupled with the need for government to increase spending on the health sector, provide social protection and assistance to the business sector as well as get back on track with infrastructure spending.

To finance the widening fiscal gap, the national government borrowed resulting in a surge of public debt ratio from 39.6% in 2019 to 54.6% in 2020 and breaching 60% in 2021 at 60.5% (Figure 2). For the COVID-19 response alone, the Philippines borrowed PhP 161.4 billion in 2020 and PhP 20.2 billion in 2021. These loans are from the Asian Development Bank, World Bank, Asian Infrastructure Investment Bank, Japan International Cooperation Agency, Export

Import Bank of Korea, and the Spanish Agency for International Development Cooperation (Diokno-Sicat & Palomar, 2021).

Treasury Bills and Fixed-Rate Treasury Bonds were the primary instruments for general national government domestic borrowing from 2020 to 2022. Borrowing also included the unusual advances of the Bangko Sentral ng Pilipinas to the national government of PhP 540 billion in 2020-2021 and PhP 300 billion in 2022.

Figure 1 . Philippine Fiscal Balance, as Percentage of GDP (1983-2022)

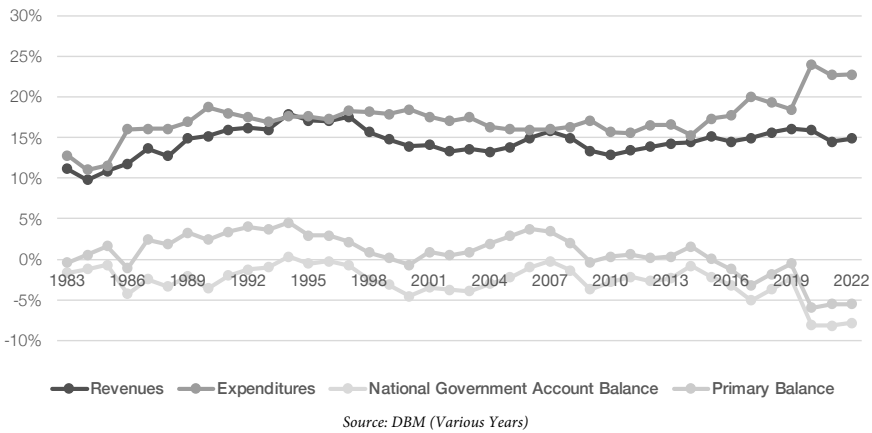
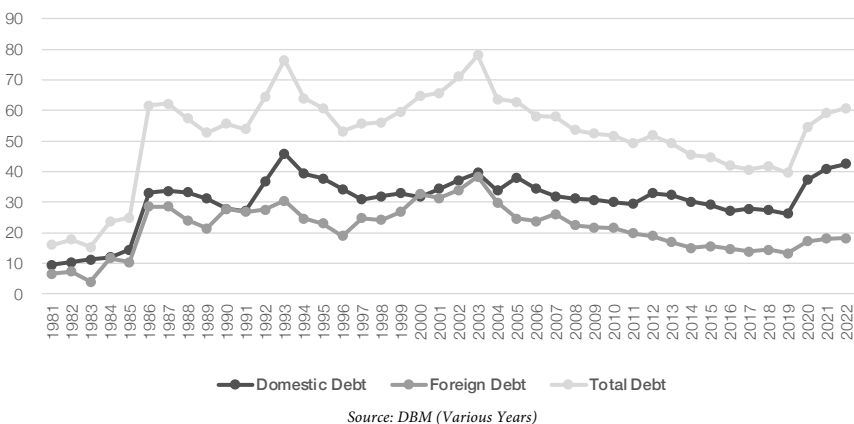


Figure 2 . Debt to GDP Ratio (1981-2022)



The continued COVID-19 management and need for social protection and fiscal stimulus will continue in 2022. The Department of Budget and Management (DBM) estimated a net financing requirement of 7.5% of GDP (or PhP 1.665 trillion) in 2022 (Table 1). This means the Philippines will still need to borrow.

The projected debt-to-GDP ratio in 2022 is 60.8%, at PhP 13 trillion, the highest since 2006 but still manageable by the Development Budget Coordination Committee (DBCC).¹ Debt will be mostly domestic (the Bureau of Treasury policy is to generally keep to 80% domestic and 20% foreign borrowing). This reduces possible adverse valuation effects with exchange rate fluctuations though it might pose the risk of crowding out private investments (Figure 3).

*Table 1 . National Government Financing
(2020-2022)*

	2020	2021	2022
(in Million PhP)			
Net Foreign Borrowing	600,759	332,526	421,364
Net Domestic Borrowing	1,894,321	1,940,565	1,910,223
Total Net Financing Requirement/Deficit	1,371,447	1,855,645	1,665,089
(as % of GDP)			
Net Foreign Borrowing	3.2%	1.6%	1.9%
Net Domestic Borrowing	10.0%	9.4%	8.7%
Total Net Financing Requirement/Deficit	7.3%	9.0%	7.5%
Memo item:			
Nominal GDP	18,856,315	20,642,291	22,080,772

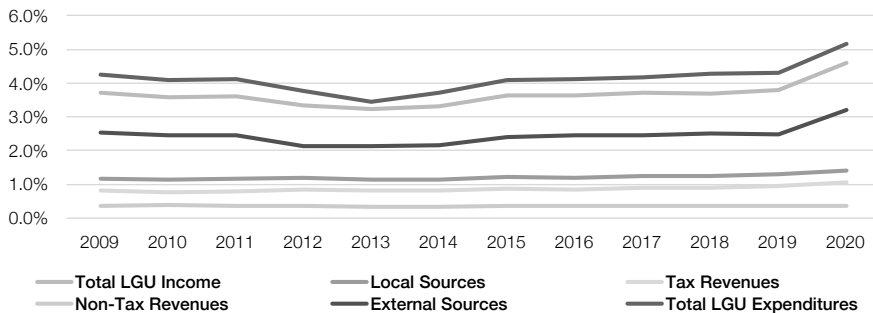
Source: DBM, Budget of Expenditures and Sources of Financing 2022

Local Governments

How much do local governments contribute to the economy and the public sector? With respect to the size of the economy, local governments contribute 4.6% to GDP or an average of 3.7% from 2009 to 2020 (Figure 3). For local sources of local government income, it is only 1.4% in 2020 and averaged 1.2% of GDP from the same period (Figure 3). Looking at tax revenues and expenditures, local tax revenues averaged 8.6% of the national tax revenues, while local expenditures had an average of 14.7% of the national government expenditures from 2009 to 2020 (Figure 4).

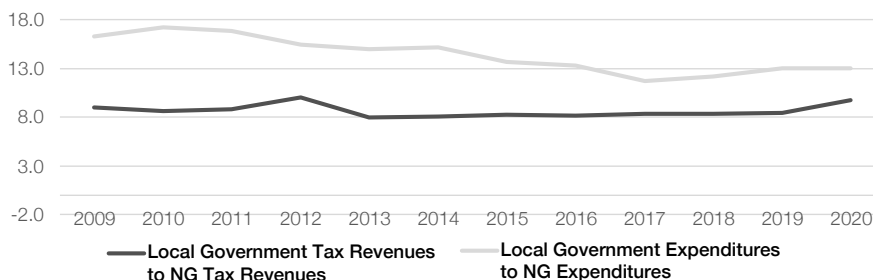
As can be inferred from the presented LGU fiscal indicators, LGUs spend more than what they raise from local sources. Historically, LGUs have been dependent on external sources of income with an average of 66.7% (of which the intergovernmental fiscal now known as NTA is the bulk) (Figure 5). Of the local sources, tax revenue is the main contributor.

Figure 3 . Local Source Government Income and Expenditures as Percent of GDP (2009-2020)



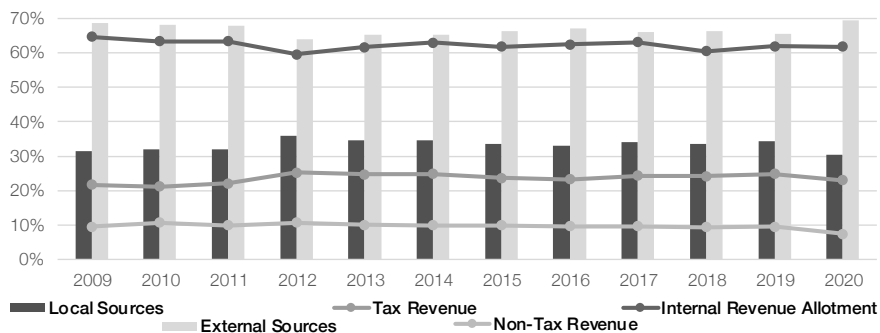
Source: Department of Budget and Management, Department of Finance-Bureau of Local Government Finance, Bureau of Internal Revenue, various years

Figure 4 . Local Government Tax Revenues to Total NG Tax Revenues and Local Government Expenditures to NG Expenditures (2009-2020)



Source: Department of Budget and Management, Department of Finance-Bureau of Local Government Finance, Bureau of Internal Revenue, various years

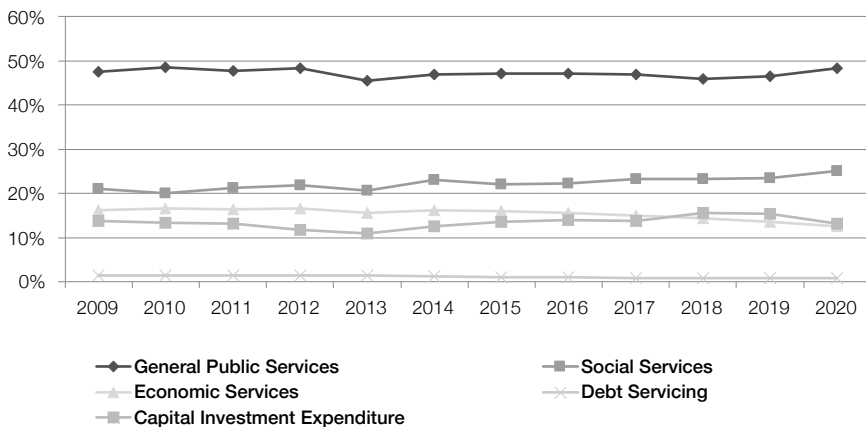
Figure 5 . LGU Income Distribution (2009-2020)



Source: BLGF (various years)

What do LGUs spend on? The bulk of their spending goes to general public services (GPS or the costs of administration of LGUs) which has averaged 47.3% in the past decade (Figure 6). Social services receive the second largest share, averaging 22.3%. This sector is comprised of education (though still centrally provided), health (fully devolved), labor and employment, social welfare and housing and community development. Economic services and capital investments get the third and fourth place shares, averaging 15.4% and 13.4 %, respectively.

Figure 6 . LGU Expenditure, Percent Distribution by Sector (2009-2020)



Source: BLGF (various years)

As mentioned above, the implementation of the Mandanas ruling broadens the computational base of intergovernmental fiscal transfers to LGUs, which in 2022 translates into a 38% overall increase settling at 4% of GDP at PhP 959 billion (Department of Budget Management, 2021).²

Role of Innovation in Governance

The previous sections presented the current fiscal state of national and local governments in undertaking the huge responsibility of economic recovery. Anchored on the need to operate government during COVID-19 lockdowns where physical interaction was limited to control the spread of the virus, alternative solutions, and innovations to delivering public goods and services were sought.

Innovation, as defined by the Oslo Manual, is “a new or significantly improved

service, communication method, or process/organizational method” (Arundel et al. 2015, p. 1271–1272). Bloch (2011) suggests that for the public sector, innovation is the implementation of a significant change in the way the organization operates or in the products it provides (Philippine Institute for Development Studies, 2020). He defines four general types of innovations (i.e., process, product, organizational, and communication innovations). Process innovation is the implementation of methods that significantly improve the production and provision of services and goods compared to the organization’s existing processes.

Product innovation is the introduction of new or significantly improved services and goods to the organization, such as in customer access or in how services or goods are used. Organizational innovation is the implementation of significantly new methods in organizing or managing work, including improvements to management systems or workplace organization. Lastly, communication innovations are either significantly new methods of promoting the organization’s services and goods or new methods of influencing the behavior of individuals or others.

With the COVID-19 pandemic, both national and local governments found alternate ways to provide goods and services which includes creating data sharing arrangements for different social protection programs, fast-tracking the distribution of the much-needed social amelioration program under the Bayanihan Acts,³ work from home arrangements for non-essential government employees (leading to shifts in support for such arrangements for civil servants), adjustments in government procurement processes and seeking online solutions, and paying taxes and providing education and health services. This changed the landscape of public service and propelled the move towards harnessing digitalization. Knowing that this is possible, the government should continue to innovate to make it easier and more efficient to deliver goods and services.

National Government

How can the national government build back better towards inclusive growth with innovative governance? This section attempts to answer this question by discussing the economic justifications for the role of government, presenting the current expenditure trends and challenges and recommendations.

Economic Justifications for the Role of Government

There are three economic justifications for the role of government. The first is to clearly delineate and enforce property rights. Second is to correct market failures such as imperfect competition, public goods, externalities, incomplete markets and information, and macroeconomic shocks and disturbances. The COVID-19 pandemic is the perfect example of the latter justification while the administration's push on infrastructure spending is justified on the public goods⁴ market failure. And the third is to ensure equity or fairness across citizens and sectors in both the choice and design of programs (Diokno-Sicat & Palomar, 2021).

Social protection programs such as the Department of Social Welfare and Development's (DSWD) Pantawid Pamilyang Pilipino Program (4Ps) and Social Pension for Indigent Senior Citizens (SocPen) are programs that redistribute income to the poor and vulnerable in society. In the same light, progressive income taxation is fiscal policy designed to address equity since those who have larger income (i.e., greater ability to pay) face higher tax rates and subsequently higher tax liability compared to those with lower income (Stiglitz & Rosengard, 2015).

As for economic growth, aggregate demand theory suggests that the public sector can stimulate economic growth through fiscal and monetary policies. In the national income accounting identity below,⁵ GDP (national output or national income) is a function of consumption, investment, government spending and net exports (Mankiw 2019):

$$\mathbf{GDP} = C(t)+I(r)+G+NX$$

Equation 1

Consumption spending, C, are household purchases of goods (durable and non-durable) and services and are a function of disposable income which is simply household income net of taxes, t. Investments (I) are goods and services bought for future use such as business fixed and residential investments and inventories. This is negatively associated with interest rates, r. Government spending, G, is the national budget where government can be perceived as a consumer in the economy. And net exports, NX, is exports (X) less imports (M), a function of the exchange rate. As the Philippine peso strengthens or appreciates (weakens or depreciates) domestic goods and services (or exports) are relatively

more expensive from the point of view of foreigners, while foreign goods and services (or imports) are relatively cheaper (expensive) from the point of view of Philippine domestic consumers. This will have a negative effect on the trade balance, exports will decrease while imports increase.

Equation 1 shows how theory predicts fiscal (taxes and government spending) and monetary policy (interest rates) will impact the economy. For fiscal policy, lower taxes (which would increase disposable household income and trigger consumption spending) and higher government expenditures (which puts income in the hands of those who/that supply goods and services to government) are expected to expand the economy through the fiscal multiplier. For monetary policy, keeping interest rates low, to encourage investments, has the same anticipated expansionary effect on incomes and the economy by creating jobs.

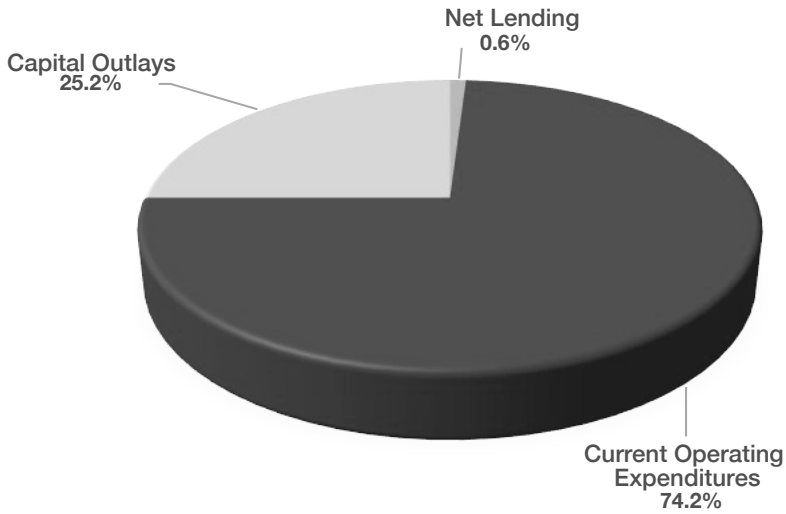
National Government Spending Priorities

Expenditures of the 2022 budget may be viewed either by expense class or by sector. Expenditures by expense class refer to current operating expenditures, capital outlays, and net lending. Current operating expenditures make up 74.2% (PhP 3.7 trillion) of the total budget (PhP 5.024 trillion).⁶ Current operating expenditures received the largest share of national government budget, averaging around 79% in the past 40 years. This is followed by capital outlays with 25.2% (PhP 1.3 trillion) of the shares, while net lending has only PhP 28.7 billion or 0.6% (Figure 7). Capital outlays had an average share of 19.6% of the national government expenditures from 1983-2021, but it has recently received increased allocations due to the government's Build, Build, Build infrastructure programs (Figure 8).

Looking at the distribution by sectors, the largest share of the 2022 budget goes to social services 38.3% (at PhP 1,921.8 billion or 8.7% of GDP) (Figure 9). Economic services follow at 29.3% of the budget (at PhP 1,473.5 billion or 6.7% of GDP). The remaining 32.4% of the proposed budget is distributed across: (1) general public services (PhP 862.7 billion, 3.9% of GDP), debt service (PhP 512.6 billion, 2.3% of GDP), national defense (PhP 224.4 billion, 1% of GDP), and net lending (PhP 28.7 billion, 0.13% of GDP).

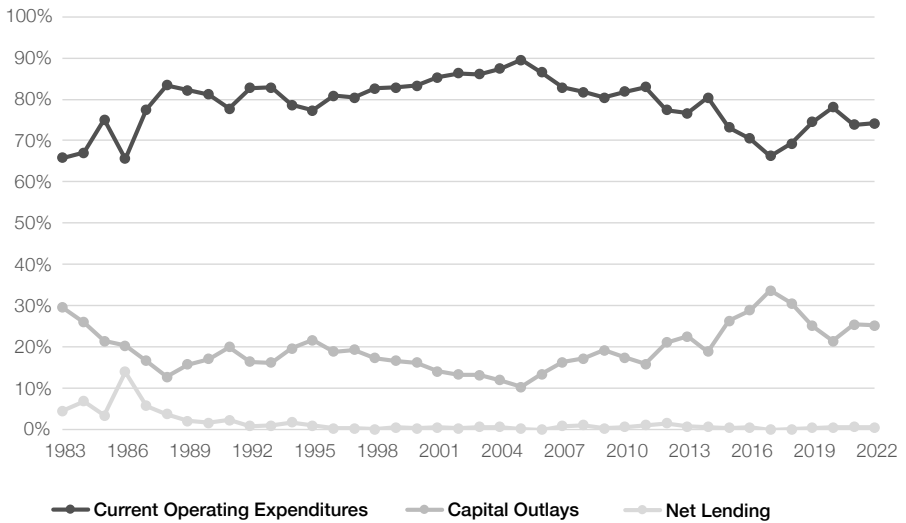
For the period 1983 to 2022, social services averaged 29.4% of the national government annual expenditures.⁷ It has received the highest number of shares

Figure 7. Proposed 2022 Budget Distribution
(by Expense Class)



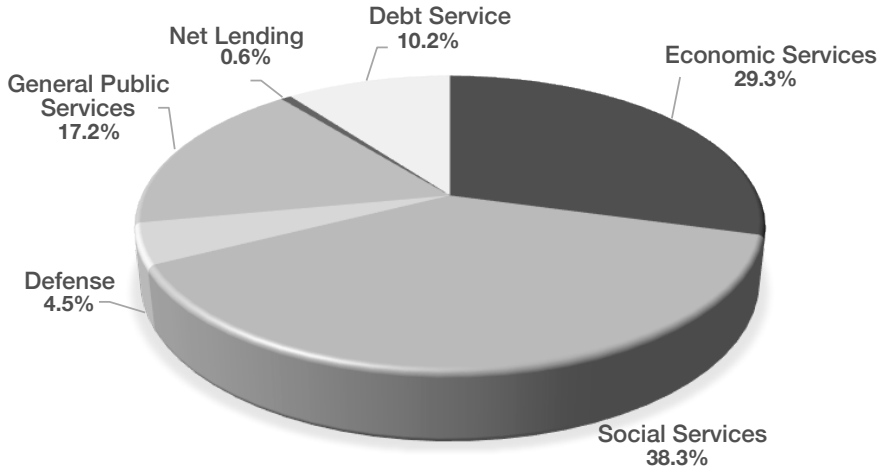
Source: DBM (Various Years)

Figure 8. National Government Expenditures, by Expense Class,
Percent Distribution
(1983-2022)



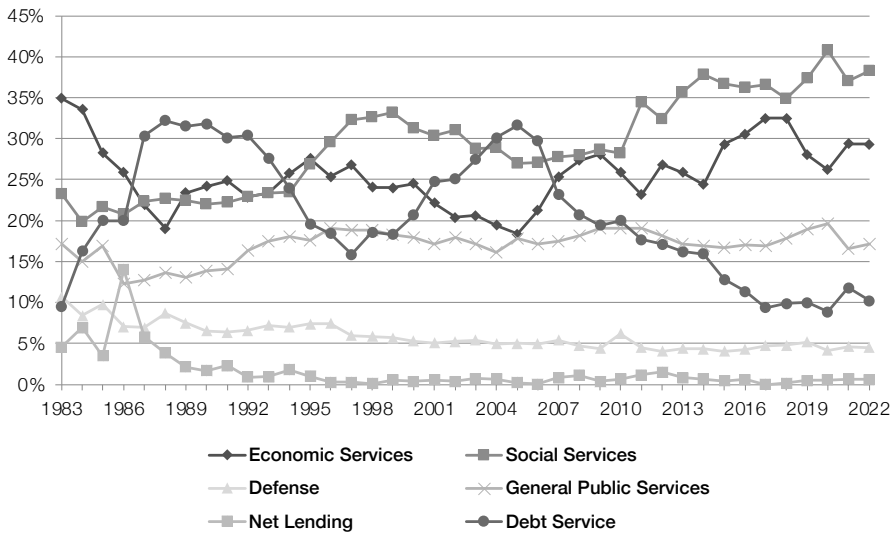
Source: DBM (Various Years)

Figure 9 . Proposed 2022 Budget Distribution by Sector
(In Percent)



Source: DBM (Various Years)

Figure 10 . National Government Expenditures, by Sector, Percent Distribution
(1983-2022)

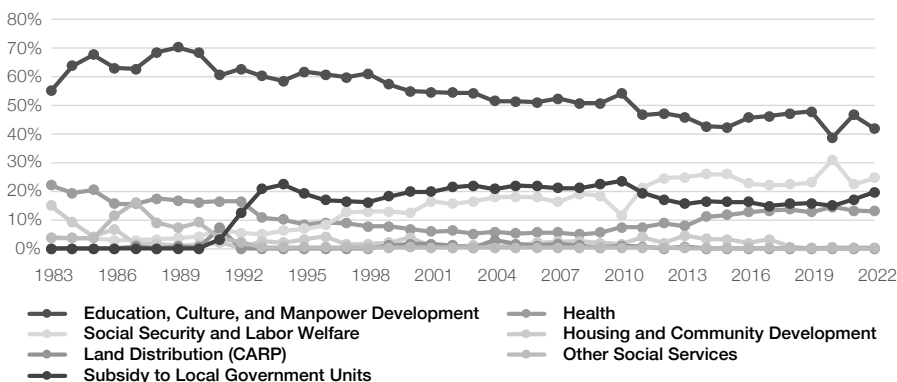


Source: DBM (Various Years)

since 1996 (Figure 10). Social services allocation is followed by economic services which has a 25.7% average for the same period. The shares for general public services are relatively consistent, averaging 17% (Diokno-Sicat & Palomar, 2021).

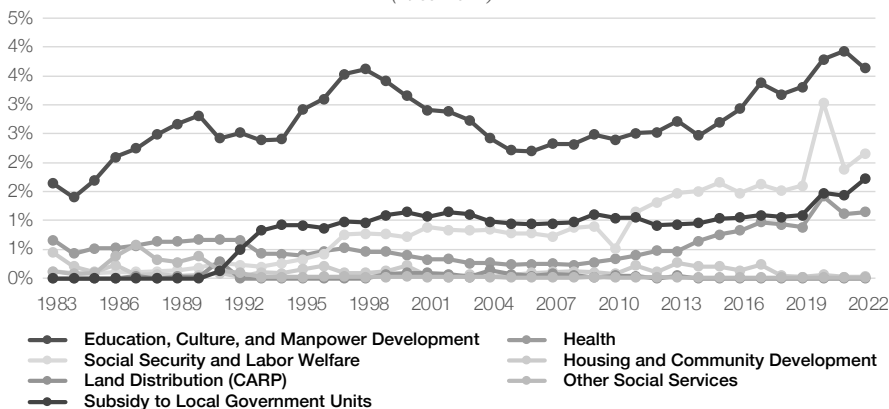
Education, culture and manpower development (ECM) has been receiving the most shares of the social services sector⁸ for the past 40 years, though it has decreased in recent years. Since 1983, ECM averages 54.5% of the social services sector or 2.7% of GDP (Figure 11.a and Figure 11.b). In the past decade, ECM has accommodated increased shares of Social Security and Labor Welfare (SSLW) and

*Figure 11a . Social Sector Expenditures Distribution
(In Percentage, 1983-2022)*



Source: DBM (Various Years)

*Figure 11b . Social Sector, Percent of GDP
(1983-2022)*

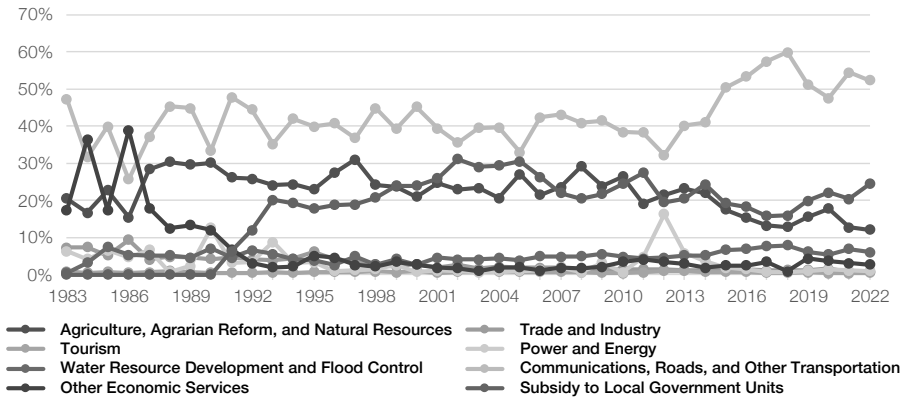


Source: DBM (Various Years)

health. Subsidy to LGUs has been increasing and surpassed health expenditures⁹ starting in 2019.

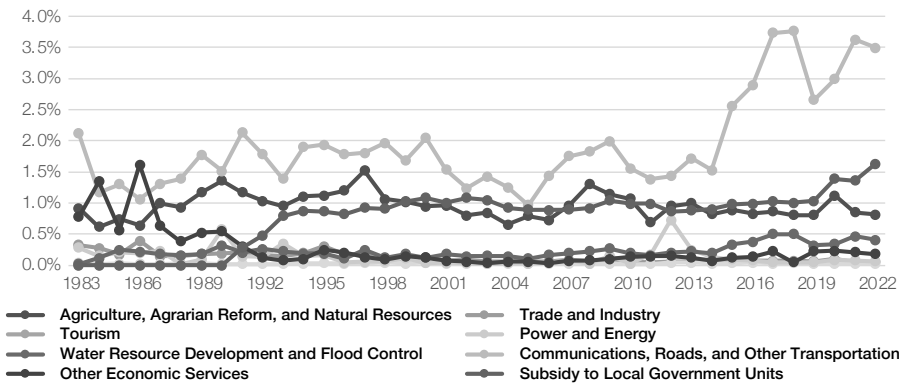
For the economic service sector, communications, roads, and other transportation (CRT) receives the highest number of shares with an average of 42.3% (or around 1.9% of GDP) since 1983 (Figure 12.a, Figure 12.b). This is followed by agriculture, agrarian reform, and natural resources (AAN) with an average of 22.3% (1% of GDP) of the economic services sector. The shares for both CRT and AAN decrease because of the spike to the shares of the subsidy to LGUs due to the implementation of the Mandanas-Garcia Supreme Court ruling.

Figure 12a . Economic Sector Distribution
(In Percent, 1983-2022)



Source: DBM (Various Years)

Figure 12b . Economic Sector, as Percent of GDP
(1983-2022)



Source: DBM (Various Years)

Recommendations

Government should continue to invest in both human capital and infrastructure but strategically so because of the need for fiscal consolidation.

- The pandemic reshaped the way public goods and services were delivered such as in the case of human capital investments such as education and health or providing social protection assistance to those whose income and livelihood were unintendedly affected by measures taken to manage the pandemic.

- Efforts must be strengthened to address economic scarring, especially for those poor and vulnerable in society. 33.8% of new appropriations worth PhP 3.602 trillion are for the Social Service sector (education, health, and social protection) (Department of Budget Management, 2021). Education (DepEd, SUCs, CHED, and TESDA), health (DOH and Budgetary Support to Government Corporations under DOH), and social welfare and development (DSWD) agencies were among the Top 10 agency-specific budget allocations.

- Digitalization was harnessed for some of these services, however, the reality of the digital divide, exacerbates scarring for the poor and vulnerable in society that are excluded from education, healthcare, work and credit access, all necessary for human capital and infrastructure development, investments needed for inclusive growth.

The Medium-Term Information and Communications Technology Harmonization Initiative (MITHI) is a convergence program for the adoption and acceleration of the digital transformation in the country. In 2022, it received an allocation of PhP 27.5 billion.¹⁰ The bulk of the allocation (PhP 8.4 billion) is for DICT initiatives, which include the PhP 2.0 billion for the Free Internet Wi-Fi Connectivity (to provide greater access to the internet) and the PhP 1.5 billion for the National Government Data Center (to help facilitate the integration of ICT in its operations). The Philippine Statistics Authority (PSA) follows DICT as the organization with the highest proposed budget for MITHI. PSA is allotted PhP 3.8 billion with PhP 1.1 billion of this budget for the Census of Agriculture, Fisheries, Industry and Services Sectors.

- The largest fiscal multipliers are in infrastructure which, in the short-term, increases income but long-term encourages more business investments

and tourism. The 2022 allocation for infrastructure and capital outlays is 5.7% of GDP, far from the 6.7% in 2017 but higher than 2021. These prioritizations should be continued to jumpstart the economy.

Local Government

How can local governments help build back better towards inclusive growth with innovative governance? This section briefly presents the justification of a decentralized government, current issues with the implementation of the Mandanas ruling and its implication of increased assumption of LGC devolved functions and needed steps in moving forward.

Decentralized Government Economic Principles

The Local Government Code (LGC) of 1991 solidified the Philippine government's commitment to decentralization by creating local government units (LGUs) that would help attain national goals by providing “a more responsive and accountable local government structure instituted through a system of decentralization whereby local government units shall be given more powers, authority, responsibilities and resources” (LGC 1991, Sec. 2a) (Diokno-Sicat & Maddawin, 2018). Figure 13 presents the basic hierarchical structure of national and local government in the Philippines.

The Philippines has 17 regions comprised of 81 provinces, 145 cities, 1,489 municipalities and 42,045 barangays (DILG, 2018). To execute LGU functions, the 1991 LGC defines the structure of LGUs and identifies the officials, both elective and appointive, necessary to exercise LGU mandate according to the type of LGU, i.e., province, city, municipality, or barangay.

One of the main economic justifications for decentralization is the belief that local government officials are more knowledgeable of the needs and preferences of their constituents and community and, therefore, are in a better position to provide the appropriate goods and services. This should improve efficiency in the provision of local goods and services; reduce wastage of public money by ensuring the local goods delivered are those demanded by the local constituency; and increase the accountability of local chief executives (Diokno-Sicat & Maddawin, 2018).

Figure 13 . Philippine National and Local Government Structure

Source: Author's Design

Diokno-Sicat and Paqueo (2021) assess the current criteria used to determine Philippine LGU fiscal viability and its impact on the ability of an LGU to deliver devolved basic services. This issue is part of the broader concern of the optimal size of the government based on one of the seminal articles on decentralization by Oates (1972) that proposes, “if there are no cost advantages (economies of scale) with centralized provision, then a decentralized pattern of public outputs reflecting differences in tastes across jurisdictions will be welfare-enhancing as compared to a centralized outcome characterized by a uniform level of output across all jurisdictions (Oates, 2008).” Another economic theory justifying the assignment of functions or mandates to lower levels of government, Tiebout’s “voting-with-the-feet” argues that voters will move to localities that offer the combination of goods and services and taxes they prefer (Stiglitz & Rosengard, 2015). By assigning the responsibility for the provision of goods and services to the lowest level of government compatible with the size of the benefit area, otherwise known as the subsidiarity principle, the constituents of this local government are expected to receive the public goods and services they prefer and demand and pay for through local taxes (NZ Local Government Forum 2008; McCormick 2015). This is the first of four principles used in practice in determining functional assignments to different levels of government (Bahl & Bird, 2018).

The second principle is the need to internalize externalities¹¹ or spillover effects of some public goods and services that cross boundaries such as local roads, water service and hospitals. Economies of scale in administrative and compliance costs is the third important aspect of determining the assignment of responsibilities across levels of government. There is a trade-off between the optimal size of jurisdictions to deal with externalities and public goods (it is expected to vary) and economies of scale and scope that arise from the service provision (Oates 2008). The fourth aspect is redistributive and macroeconomic stability which would typically be reserved for the central government. These four principles commonly guide the assignment of functions across levels of government.

Looking at local revenues, the general principles in tax assignment to local governments are: (1) mobility of factors of production; (2) redistributive and equity purposes; and (3) administrative costs (Bahl & Bird, 2018; Shah, 2004). For factors of production, the local government should be responsible for taxation of immobile factors such as land, properties, and local businesses. The central government should be responsible for taxation (and subsidies) that are meant to redistribute income to lower income households or citizens. Finally, like administrative cost considerations in expenditure assignments, taxes should be assigned to the jurisdiction with the best ability to monitor relevant assessments. This will minimize tax evasion and take advantage of economies of scale in administration (Diokno-Sicat & Paqueo, 2021).

Table 2 . LGC Sec. 17 Devolved Basic Services

ECONOMIC SERVICES

- Agricultural extension and On-site research
- Community based forestry projects
- Tourism facilities and tourism promotion and development
- Public works and infrastructure projects funded out of local funds
- Telecommunication services for provinces and cities

SOCIAL SERVICES

- School building program
- Field health and hospital services and other tertiary health services
- Social welfare services such as programs and projects on rebel returnees and evacuees;
- Relief operations and population development services
- Housing projects for provinces and cities such as low-cost housing and other mass dwellings

OTHER SERVICES

- Investment support and Industrial research and development

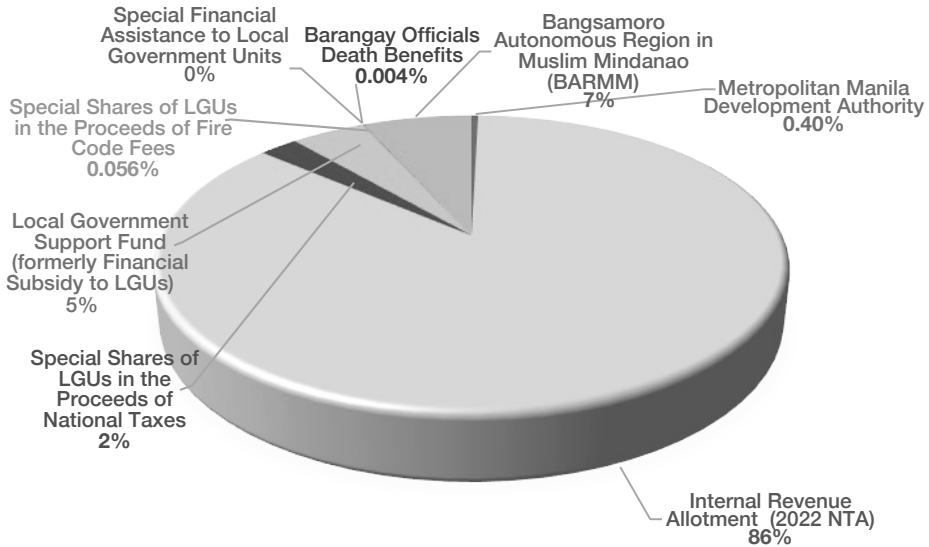
These principles guided the design of the Local Government Code of 1991 and resulted in devolved functions in Sec. 17 of the LGC (Table 2) and assigned revenue sources. As mentioned above, these devolved services have not yet been fully absorbed by LGUs but are planned to be with the implementation of the Mandanas ruling.

The Implementation of the Mandanas-Garcia Supreme Court Ruling and the Assumption of Devolved Functions

One of the most challenging implications of the Mandanas ruling is the reduced fiscal space for the national government to recover the economy alongside the need for fiscal consolidation. Because of the broadened base of the computation of intergovernmental fiscal transfers, fiscal policymakers decided that rationalizing (targeted to poorer and disadvantaged LGUs) the national government local government support programs would help the national government recover more of the budgetary envelope to address more national needs. The implication for LGUs is that they need to assume more of the devolved functions for which they had received national government support for 30 years of the LGC. This move will allow local governments to contribute to more national development.

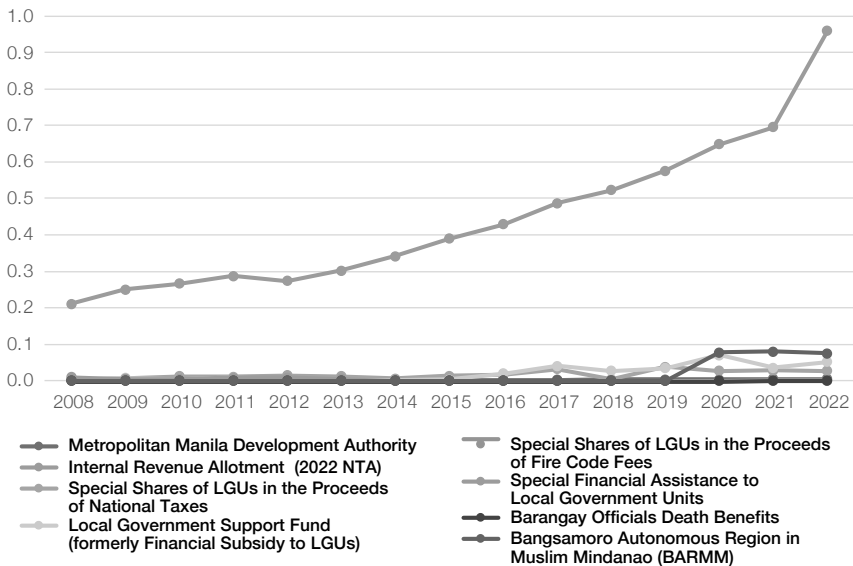
Executive Order No. 138 (2021) and DBM MC No. 138 (Department of Budget and Management, 2021) and 140 (Department of Budget Management, 2021) laid the groundwork for devolution transition by asking local government and affected government agencies to draft devolution transition plans (DTPs) for the years of transition 2022 until 2024. The contents of the LGU DTPs include the current devolved services of LGUs, the planned assumption of other devolved functions, capacity building and other support needed for the assumption of functions, current and proposed revisions in organizational structures as well as revenue projections. The national government DTPs contain the proposed assignment of functions, services, and facilities to each level of LGU (including an implementation strategy); identification of the inventory of standards of said services (including minimum cost, scope, specification, quality, and manpower complement); and framework for performance assessment and organizational effectiveness. The oversight agencies are currently reviewing these DTPs to identify strategic interventions in the transition such as technical assistance and

Figure 14 . Allocations to Local Government Units, Percent Distribution (2022)



Source: DBM, 2022 BESF

Figure 14 . ALGU Allocations, 2008-2022 (In Billion PhP)



Source: DBM (Various Years)

capacity building for LGUs in absorbing these devolved functions.

For the 2022 budget, new general appropriations for the allocations to local government units (ALGU) will receive a 16.7% increase (PhP 12.9 billion) to settle at a total of 2.6% of the budget. ALGU has increased consistently for more than a decade with new appropriations, averaging an increase of 16.4% and total available appropriations increasing with an average of 12.4%. The majority of total available appropriations for ALGU is allotted for Internal Revenue Allotment (IRA), now known as the National Tax Allotment (NTA). In 2022, NTA is worth 86% of ALGU (PhP 959 billion) increasing by 38% (or PhP 263.5 billion) because of the broader base for its computation owing to the Mandanas-Garcia Supreme court ruling (Figures 14 and 15).

What is the impact of the increased transfers to local governments? In terms of the 2022 national budget, these crowded out all other economic services such as agriculture, agrarian reform and natural resources; communications roads and other transportation, (Figure 12.a) and all other social services except for social security and labor welfare (Figure 12.b).

Therefore, the adopted policy of rationalizing NG-LGU support programs for devolved functions (to poorer and disadvantaged LGUs), to recover some fiscal space, translated into a 29.0% decline in total NG-LGU assistance programs (Table 2). The largest decline, of 36% is for Local Government Support Programs (LGSF). This was followed by DPWH's Basic Infrastructure Program with a 27% decline although it has been growing at an average rate of 113% in the past decade.

It should be noted, however, that a possible reason for maintaining such programs is the concern that some LGUs may have low absorptive capacities to spend particularly on infrastructure, based on evidence of insufficient spending of the mandated local development fund (with an average of only about 76% for total LGUs in 2017) (Commission on Audit, 2018).

Recommendations

In 2022, LGUs will be receiving increased funds with the implementation of the Mandanas Supreme Court ruling. This amounts to a 38% increase in intergovernmental fiscal transfers, now known as National Tax Allotment (NTA), totaling PhP 959 billion, approximately 20% of the 2022 budget of PhP 5.024 trillion, or 4% of GDP. For LGUs to contribute to economic recovery:

*Table 3. National Government LGU Assistance Programs Budget Allocations
(2013-2022)*

LGU Programs	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
TOTAL (in Billion PhP)	27.1	35.7	48.1	77.3	99.5	111.2	128.5	139.8	182.7	129.8
DPWH										
Tourism Road Infrastructure Project	12.0	14.3	8.9	22.6	12.4	30.96	16.96	21.9	16.8	16.80
Local Infrastructure Program/Basic Infrastructure Program	1.1	7.3	27.4	26.0	37.1	35.3	65.6	76.8	117.0	85.4
DILG										
Performance Challenge Fund/SGLG	1.0	0.5	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
LGSF	0.2	0.4	3.1	19.1	39.8	31.4	32.7	28.9	35.2	17.9
DA										
Farm-to-Market Road Program	8.7	12.0	6.3	7.4	6.0	9.96	10.3	9.96	11.7	7.5
Small Scale Irrigation Projects	4.2	1.3	1.5	1.3	3.3	2.7	1.98	1.3	1.0	1.1

Source: DBM, Budget of Expenditures and Sources of Financing 2022

- There should be strategic fund utilization through:
 - Strengthened identification and prioritization of investment programs. A PIDS study based on a census of municipal development planning practices found that in 2018, only 40% of (1,373) municipalities had updated comprehensive development plans, 31% valid LDIPs and only half prepared project briefs for these (Diokno-Sicat, Adaro, Maddawin, Castillo, & G. Mariano, 2020).
 - Encourage investments across different LGUs such as in local water service delivery. An article reviewing the institutional and regulatory framework of local water supply governance showed that the overlapping and ambiguous regulatory structure is part of the reason of fragmented local water investments (Velasco, Diokno-Sicat, Castillo, & Maddawin, 2021).
 - Ensuring LGUs spend on prioritized investment programs: Evidence showed that municipalities in 2017 spent an average of only 76% of mandated LDF which is the primary source of local infrastructure spending (which is 20% of IRA and will be larger starting 2022). With national government streamlining LGU support programs to poorer/disadvantaged ones, LGUs need to take on more investment spending

and fulfill at the very least LDF mandate, to be able to jumpstart local economies.

- Need for alignment with NG for more strategic use of funds. In 2017, the National Economic Development Authority (NEDA) and the DILG, initiated an exercise of localizing the Philippine Development Plan (PDP) in provincial plans by requiring provinces to draft results matrices, based on the PDP. This exercise was welcomed by local planners as one that would allow them to see their contribution to the PDP while also serving as guidance to national government oversight agencies to be able to determine where to strategically invest through technical and financial assistance (Diokno-Sicat & Palomar, Analysis of the 2022 President’s Budget, 2021). This effort is planned to be continued and expanded to be linked to online local development planning and eventually budgeting platforms.

- Encourage enhanced local revenue generation: LGUs have been between 65 to 70% dependent on intergovernmental fiscal transfers:
 - Pass the Real Property Valuation Bill to provide additional funds in local service delivery, but this might be offset by
 - The disincentive created by the increased income because of the Mandanas SC ruling, LGUs will continue to be dependent on transfers.
- Finally, the pandemic forced LGUs to innovate in service delivery and given this experience, LGUs should continue to do so. In this the private sector and civil society organizations have a major role to play. The success of this is hinged on and can contribute to improved development planning and investment programming.

Institutional and Cross-cutting Innovations in Public Sector Governance

Innovation in governance is not just about creating or applying new technologies, even thinking of new processes or ways of doing things or systematically gathering data can be innovations. This section suggests other needed reforms in public sector governance that cut across and support the proposed recommendations

for national and local governments discussed above. These reforms also provide a role for the private sector as partners in propelling the economy towards sustained and inclusive growth.

Institutional Innovations in Governance

The institutional environment...the formal rules of the game...that include the executive, legislative, judicial, and bureaucratic functions of government as well as the distribution of powers across different levels of government... are inarguably important to the economic productivity...though cumulative change of a progressive kind is very difficult to orchestrate...(R)are windows of opportunity to effect broad reform from established procedures are thereby opened (with massive discontent, breakdowns or financial crises). Such “defining moments” are nevertheless the exception rather than the rule. Absent such a window, major changes in the rules of the game occur in the order of decades or centuries (Williamson, 2000, p. 598)

- *Information as innovations in institutional reforms:*

The analytical capacity and decision-making of the public sector is influenced by the strength of its information. Outdated, fragmented or even the complete absence of information/systems can impact the effectiveness of policy interventions.

The COVID-19 pandemic highlighted existing issues in governance in many areas including those directly related to the public sector’s insufficient information systems. Information and data are crucial in both identifying and addressing the issue, especially in shocks to community of this magnitude. However, data on citizens—which are critical in providing safety nets—were either unavailable, non-validated, or of poor quality (Philippine Institute for Development Studies, 2020). This resulted in 365 local governments being unable to effectively distribute to qualified citizens their shares from the Emergency Measures Program (EMP) or the Social Amelioration Program (SAP) at the start of the pandemic. A solid database of citizens would have made the distribution of safety nets as well as the contact-tracing of possible cases more efficient.

An example of an information system currently being used by some local

governments is the community-based monitoring system (CBMS), which is a data collection system for data that may be used for planning, program implementation, and impact monitoring at the local level. Sicat et al (2020) found that a majority of municipalities used CBMS in their development planning process for ecological profiling and helping identify priority sectors as basis for budgeting. There is, however, little information regarding the extent of full utilization of the CBMS by LGUs and their capacity to do so. Aside from the availability of data, the access and capacity of workers to use the data according to their purpose are also crucial. Usage of the data must also be improved, especially since CBMS is underutilized by units outside of the municipal planning office such as social welfare, health, and local school boards (Diokno-Sicat, Adaro, & Maddawin, 2020).

- *Innovations in cooperation*

Innovations in providing public goods and services, through alternative arrangements such as inter-LGU (both horizontal and vertical) cooperation as well as national and local government alignment and collaboration are perfect vehicles for the common goal of inclusive growth and development. Such alignment and cooperation will also allow more strategic and efficient use of limited fiscal space considering the need for fiscal consolidation. The Taal Volcano eruption and the COVID-19 pandemic shocks in 2020 have showcased the need for such alignment, cooperation, and coordination between the different levels of government and the private sector (Philippine Institute for Development Studies, 2020).

There is also evidence of the need for higher level LGUs to exercise their oversight functions of constituent LGUs. A PIDS' study (2019) investigated the planning and budgeting framework for both local governments and the national government. Interviews conducted for the study revealed that, despite the provincial governments' mandate in having oversight over component cities and municipalities, such oversight was rarely practiced (Diokno-Sicat C. J., Castillo, Adaro, & Maddawin, 2019). Diokno-Sicat, et al (2020) identified that the harmonization of the municipal, component city, and provincial plans need improvement with the supervision of the DILG being an important factor (Diokno-Sicat, Adaro, Maddawin, Castillo, & G. Mariano, 2020).

As for the alignment of national and local development plans, the National Economic Development Authority (NEDA) is responsible for ensuring this up to the provincial level through the Regional Development Council (RDC). In 2017, NEDA and DILG implemented the Philippine Development Plan 2017-2022 Localization exercise that mandated provincial governments draft their own results matrices (RM, a monitoring tool) that are defined based on the relevant priority sectors and indicators in the PDP 2017-2022 RM. This effort, though requiring additional work, was welcomed by the LGUs as an important tool to assess progress. The study showed how the RMs could be used to identify PDP sectors where provincial governments contribute to the economy as well as which areas national government could cooperate with to push priorities (Diokno-Sicat, Castillo, & Maddawin, 2021). Like the PIDS' (2020) study above, the author highlighted the need for exercise of provincial government oversight and cooperation as well as the reciprocated cooperation from component city and municipal governments to strengthen and allow for more efficient local investments.

There should also be strengthened inter-LGU cooperation for providing devolved services that are identified to have spillover effects across LGUs. There should be a regulatory review to streamline and address the overlaps and ambiguities in these areas and in moving forward with the provision of these identified services across LGUs. An example is the local water supply sector. An article in the recently released Philippine Journal of Development (PJD) shows that fragmentation in the local water supply sector (because of overlapping and ambiguous regulatory mandates) has resulted in underinvestment in local water sector, serving a challenge in reaching SDG 6 of universal access to water by 2030.

Digitalization

Digitalization is another crosscutting issue that would enhance public sector governance. One of the earlier efforts towards utilizing information and communications technology (ICT) in Philippine governance was the introduction of e-government through Executive Order No. 265, s. 2000 which approved the adopting of the Government Information Transition Plan (GISP). Government Information System Plan (GISP) is a framework and guide to improve governance

through the computerization of key services and operations.¹² This eventually led to the E-Government Master Plan (EGMP), which aimed to update the GISP more than a decade after its introduction, and then more recently, the Government-Wide Medium-Term Information and Communication Technology (ICT) Harmonization Initiative (MITHI). As mentioned above, the objective of MITHI is to have a mechanism for a systemic process that harmonizes and ensures the interoperability of ICT-related efforts across the government which includes NGAs, GOCCs, and SUCs.¹³

However, despite the long history of e-government in the Philippines, the long-standing challenges in using ICT to address governance and delivery problems in the country remain. This was further unfolded with the country's COVID-19 pandemic response. The Philippine Identification System (PhilSys) was passed to have a single national identification in the country with the aim of improving service delivery and administrative governance.¹⁴ However, the challenges in the current ICT infrastructure, along with other concerns such as data privacy, continue to prevent the development of e-government initiatives such as PhilSys.

The inadequacy of ICT infrastructure is also related to the lack of hardware and the issues with the operability or compatibility of infrastructure across government agencies. Qualified IT developers, which the Philippine government also has a lack of, are also necessary if the goal is to improve e-government initiatives. Furthermore, personnel capacities are also relevant since successful implementation of e-government in the country depends on the technological skills of leaders, employees along with citizens, and the vulnerable population.

The lack of capabilities and access to ICT instruments cause a digital divide, which is a gap between socio-demographics with access to ICT. E-government solutions will lead to social exclusion if these issues remain unaddressed.

Harnessing digitalization requires a whole-of-society approach and provides a major role for the private sector contribute to/participate in to sustain economic recovery. This, however, requires laying the foundations in:

1. *Infrastructure and systems*: Continued implementation of the Medium-Term Information and Communications Technology Harmonization Initiative which is government's efforts to improve government online platforms to deliver better services.
2. *Investments in human capital*: With the shift to a more digital economy

there is a need to upskill and retool workers and enhance technical capacities for workers to learn the new technologies in current work or prepare workers for new jobs coming about because of the shift to digitalization and digital platforms.

3. *Financial sector*: The BSP goal of converting 50% of the total volume of retail payments into digital form and onboard at least 70% of Filipino adults to the financial system through the opening of a transaction account that can be used for a payments system.

4. *Business sector*: Businesses could be partners with government by providing solutions to pain points in the proposed priority areas above. During the COVID-19 pandemic, there were successful efforts to deliver public social protection assistance using financial service providers and other I(individual) to I(individual) platform solutions all provided by the private sector.

Conclusion and Recommendations

What is needed to ensure that the Philippines builds back better towards inclusive growth with innovative public sector governance?

1. The National Government will need to strategize fiscal consolidation by balancing this with the need to recover the economy through both physical (infrastructure) and human capital investments.

2. LGUs should contribute to economic recovery by strategically utilizing the adjustment in their intergovernmental fiscal transfers owing to the Mandanas ruling by:

- Strengthened development planning and investment programming
- Enhancing local revenue mobilization
- Looking for alternative arrangements (inter-local or with the private sector) for providing devolved goods and services

3. Implement institutional and governance innovations that cut across the public sector such as investments in data and information systems and harnessing digitalization.

What is needed to do this?

1. Continued innovations in the delivery of public services.
2. Innovations and institutional reforms in data and information so that development planning, investment programming and social protection targeting is easier. Some specifics include fast tracking the implementation of:
 - The PhilSys Law (RA 11055) and
 - The Free Internet Access in Public Places Act (RA10929)
3. With limited fiscal space tap the private sector in needed investments and encouraging this by streamlining regulatory framework to enhance governance of public private partnerships both at the national and local levels.
4. All these reforms require capacity building.

¹ Development Budget Coordination Committee Fiscal Risks Statement 2021

² From Republic Act No. 11639

³ Republic Act No. 11469 or Bayanihan to Heal As One Act; and Republic Act No. 11494 or Bayanihan to Recover As One Act.

⁴ The economic definition of a public good (compared to the common perception that public goods are any good provided by the public sector) is a good that can be used by many persons at the same time (non-rival) and for which a pricing mechanism cannot exclude others from consuming it (non-excludable) (Stiglitz and Rosengard 2015, Rosen and Gayer 2010). An example would be a national road that all commuters can use once its built by government and for which those who did not pay taxes cannot be excluded from traveling

⁵ This is based on the theory of aggregate demand (Mankiw 2019).

⁶ This includes debt servicing of P512 billion.

⁷ Not including debt service which is reported in the above Figure 6 but not considered as part of productive expenditures of government that contributes to economic growth and development.

⁸ The figure is based on the National Expenditure Program FY 2022, which is 1.7% more than the social security, welfare and employment expenditures according to the GAA FY 2022.

⁹ This figure is based on the National Expenditure Program FY 2022, which is less than 1.3% than health expenditures according to the GAA FY 2022.

¹⁰ From the Technical Notes on the 2022 Proposed National Budget

¹¹ An externality is when the action of an economic agent unintentionally affects the welfare of another economic agent (Stiglitz and Rosengard 2015).

¹² From Sec. 1 of Executive Order No. 265, s. 2000

¹³ From Joint Memorandum Circular No. 2012-01 of DBM, DOST-ICTO, and NEDA

¹⁴ From Sec. 3 of Republic Act No. 11055

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ANNEX

*Annex A . Local Government Tax Revenues and Expenditures as Shares of GDP
and National Government Tax Revenues and Expenditures
(2009-2020)*

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
LG Expenditures												
% to GDP	2.8	2.7	2.6	2.6	2.5	2.3	2.4	2.4	2.3	2.4	2.4	3.1
% to NG Expenditure	24.9	26.1	26.3	22.7	20.8	24.4	23.6	23.1	20.8	22.1	23.2	21.5
LG Revenues												
% to GDP	1.2	1.1	1.2	1.2	1.1	1.1	1.2	1.2	1.2	1.2	1.3	1.4
% to NG Revenue	9.0	8.6	8.8	10.1	7.9	8.1	8.3	8.1	8.3	8.3	8.4	9.7

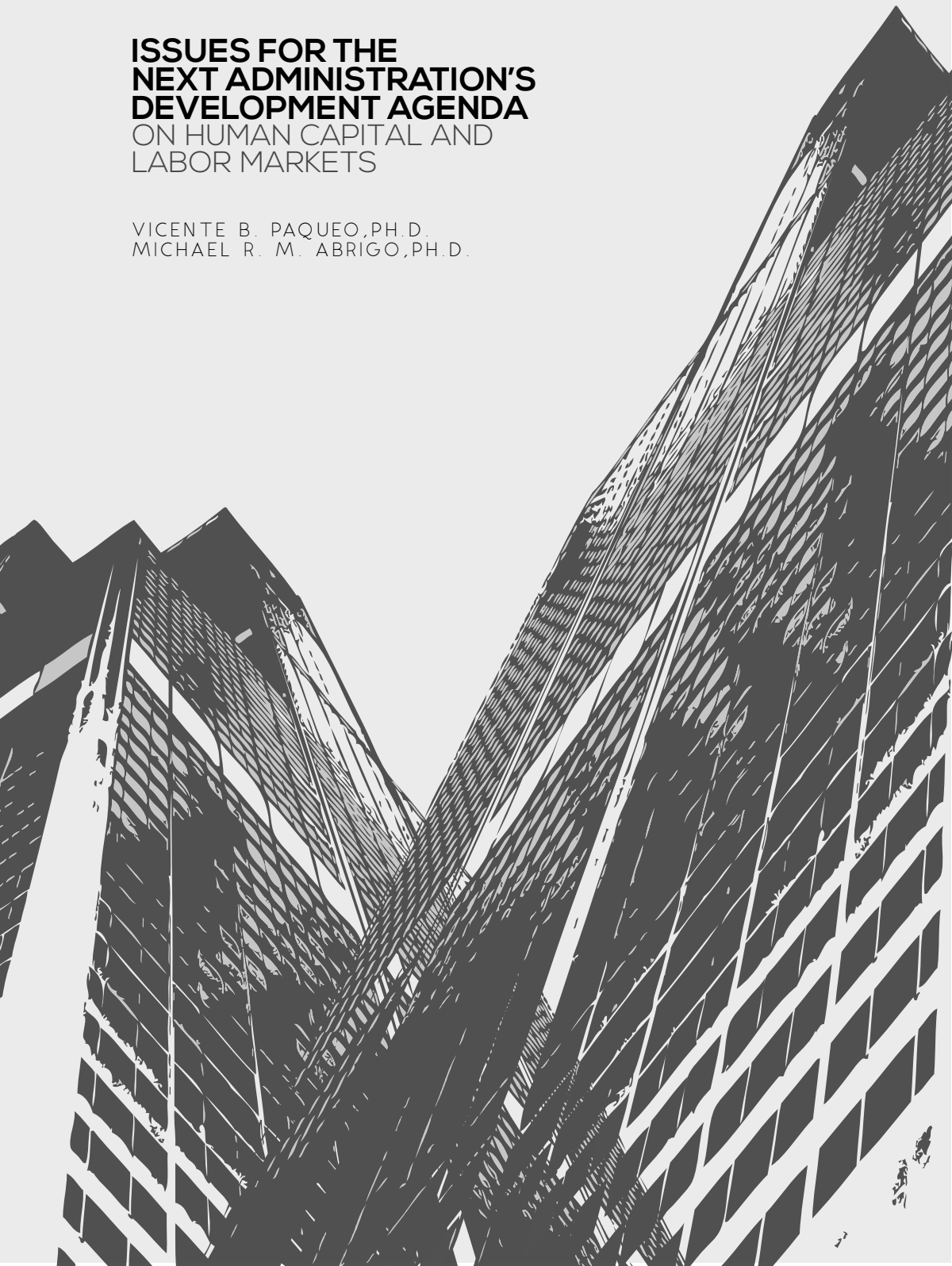
LG = Local Government; NG = National Government

Source: Author's computation based on basic data from the Department of Budget and Management, Department of Finance Bureau of Local Government Finance and the Philippine Statistics Authority, various years

ISSUES FOR THE NEXT ADMINISTRATION'S DEVELOPMENT AGENDA

ON HUMAN CAPITAL AND
LABOR MARKETS

VICENTE B. PAQUEO, PH.D.
MICHAEL R. M. ABRIGO, PH.D.



ISSUES FOR THE NEXT ADMINISTRATION'S DEVELOPMENT AGENDA ON HUMAN CAPITAL AND LABOR MARKETS

VICENTE B. PAQUEO, PH.D.¹
MICHAEL R. M. ABRIGO, PH.D.

The paper seeks to contribute to the education, skills, labor and employment development agenda that the next administration should consider in its policies. The first section of this study sets the scene and sketches our analytical perspectives to contextualize the issues and policy options to be discussed. The second section discusses jobs, worker productivity and the labor market, while third section focuses on education. On the last section, the paper concludes with a broad summary of our core messages and a wish list of actions for the next Administration to think about in formulating and operationalizing its development agenda.

This paper does not seek to provide a comprehensive discussion of the assigned topics, though it covers a lot of ground. The discussion on solutions is limited to spotlighting selected options. The reason for those limitations is simply that making the study more comprehensive and richer in practical details, while desirable, would take more time and resources than what is available for this study. Having acknowledged its limitations, this paper still discusses important development agenda points in the social and socioeconomic space that remains a consistent national concern in many administrations.

National Development Context and Analytical Framework

By laying out the national economic context and outlining the author's thoughts and observations into a model. This section presents a summary of the country's recent performance, its challenges, and economic constraints. It also presents a schema for visualizing how sectoral improvements could fit in and contribute to the broader development agenda of the next Administration.

Economic Context

During the second decade of the 21st century, the Philippines under President Benigno Aquino III (2010-2016) started to see a notably faster economic growth that appears to be sustainable and inclusive. This achievement can be gleaned from several indicators: growth of GDP per capita averaging around 6% or more for several consecutive years, expansion of employment, and decline in underemployment rate. Other socioeconomic indicators from the Philippine Statistics Authority (PSA) and the Social Weather Stations (SWS) also show significant reduction in poverty rate.

Unlike past episodes of economic growth, which was characterized by boom and bust, there were more gainers than losers from economic change during the period. Data further indicates that the country's debt burden fell and the international credit ratings of the Philippines notably improved, which augur well for economic sustainability. Considering these accomplishments, the Philippines was rated as one of the best economic performers in the region and among developing countries.

The economy continued its rapid, stable, and inclusive growth under President Rodrigo Duterte. Encouraged by the country's strong economic performance and its strengthening financial position, the government projected that the Philippines would soon become an Upper Middle-Income Country (UMIC) in the early 2020s. It also formulated and pushed for *Ambisyon Natin 2040*, an ambitious long-term perspective plan that is meant to anchor the development policies of current and future Administrations to ensure time consistency. Essentially, *Ambisyon Natin 2040* envisions the Philippines as a nation free of poverty by 2040 – one that is populated with well-educated and healthy children and families that earn enough income to meet consumption standards that Filipinos aspire to.

Unfortunately, the Philippines lost its economic momentum after it got hit by the Covid-19 pandemic in 2020. On this score, the country saw severe declines in GDP and a significant rise in poverty, unemployment, and underemployment rates. Children's education also suffered as school enrollment fell and in-person learning was curtailed. Hunger rose and became more severe.

The loss of economic and social momentum resulted mainly from government efforts to prevent the spread of Covid-19 and protect its citizens against the health consequences of infection. As in other countries, those efforts have included lockdowns, severe restrictions on business operations, school closures, and constraints on the movements of goods, workers, and consumers. Those measures have had adverse consequences on trade (local and international), employment, and income. Some of the consequences are temporary, but others are expected to leave scars that could be more lasting. Major examples of the long-term adverse consequences of the Covid-19 pandemic are the scarring effects of unemployment due to frequent business shutdowns, restrictions on work arrangements, and investment uncertainty. Another example of scarring relates to the effects on student learning of school closures, reduction in-person learning time, and poor-quality remote learning at home.

The above observations suggest the following issues that should be noted by the next Administration in fashioning its development agenda. First, the *Ambisyon Natin 2040* goals are now tougher to achieve due to the advent of the Covid-19 pandemic and the global inability to effectively control its transmission. Second, given the scarring effects of the pandemic and the weakened economic position of the country relative to the need for bigger public spending, it would likely take more time to overcome the economic and social setback caused directly or indirectly by the pandemic. Third, the difficulty of sustaining lower levels of Covid-19 transmission and the rise of other viruses that could threaten human lives create economic uncertainty that could undermine achievement of the goals of *Ambisyon Natin 2040*. On this score, the emergence of more public health threats like Covid-19 in the future is expected to intensify and complicate economic progress.

Those added complications and difficulties discussed above are on top of the need to strengthen the ability of the country to effectively deal with the costly impact of climate change on the Philippines, which has been identified as one of the countries that are highly vulnerable to climate change.

Mentioned challenges are also on top of the exigencies of getting the nation able and ready to take advantage of the unprecedented opportunities for wealth creation in the age of FIRE (Fourth Industrial Revolution) to help workers. The current labor force need to learn new skills and upgrade old ones to be able to move to better paying jobs and to mitigate FIRE's disruptive effects on workers, businesses, and families.

In sum, the Philippines needs to mobilize more resources and use them more efficiently while pursuing inclusivity objectives. Consequently, the next elected Administration would have to think about the following questions: What can it do to get the socioeconomic momentum back and the country on track towards Ambisyon Natin 2040? What adjustments are needed? What priorities should it pursue and what should the next Administration focus on?

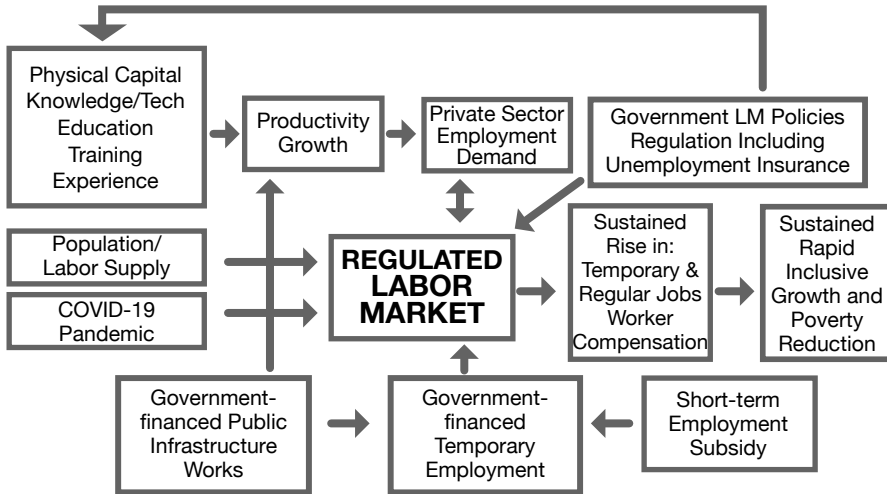
Analytical Framework

In thinking and formulating the next Administration's development agenda, it is useful to have a logical framework that models schematically how a set of given factors produce outputs that lead to desired final outcomes as well as unintended side effects. Figure 1 illustrates such a framework schematically.

The paper presents a diagram to logically organize our thinking about sustained and inclusive economic growth and poverty reduction in relation to factors that affect and drive them considering knowledge from development literature and experience. With the diagram, we communicate the following points.

First, sustained increases in workers' employment and compensation leads to rapid, inclusive, and sustainable economic growth and poverty rate reduction. Second, as profit margins increase with productivity growth, the incentive for private employers to expand labor demand intensifies, potentially creating more job opportunities, better working conditions and improved labor compensation in the form of higher wages and benefits. Third, how much of the labor demands get translated into actual increases in employment, better working conditions and higher labor compensation depends on the labor market conditions, specifically on the availability of labor supply and regulatory environment. Fourth, government policies and regulations could impact the efficient functioning of labor markets, thereby impeding or enhancing the degree to which productivity growth results in desired final outcomes. Fifth, broadly, the drivers of productivity

Figure 1 . Determination of Jobs and Compensation



Source: Visual Representation of the Author's Analytical Framework

growth include: advances in knowledge and technology, investments in human and physical capital formation, public infrastructure and institutions that support innovations and efficient use of scarce resources. Human capital formation refers to education, training and experiences that raise people’s skills and other competencies (cognitive and non-cognitive).

Technically, investment in health should be included in the definition of human capital. But for purposes of this study, health and productivity issues will not be highlighted since these topics are not part of its remit.

Labor Market Issues

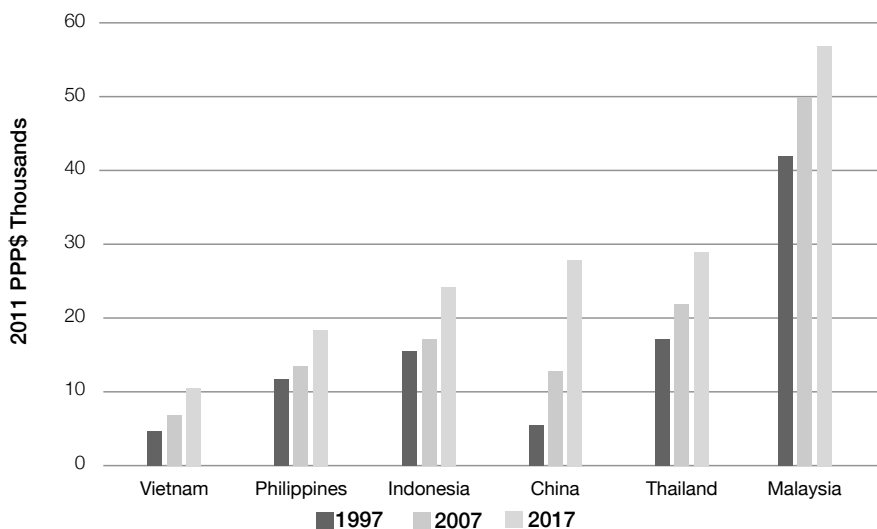
Productivity growth is necessary for sustained economic development. In fact, it is a distinguishing feature of the rise of modern and advanced economies. It is, therefore, unfortunate that the Philippines has been lagging behind its regional and aspirational peers as regards labor productivity. This fact is illustrated by Figure 2. The Philippines lags behind Indonesia, China, Thailand, and Malaysia, as measured by the GDP per worker. Hence, there is need to intensify the country’s efforts to accelerate productivity growth.

Figure 2 . Importance of Focusing on PH Labor Productivity Growth

LABOR PRODUCTIVITY AS A DRIVER OF COMPENSATION PER WORKER

	Log (Compensation per Worker)	
	(1)	(2)
Log (GDP per worker)	0.646 ** (0.246)	0.732 ** (0.274)
Log (Capital per worker)	3.607 *** (0.335)	3.303 *** (0.406)
CPI-Deflator Ratio		0.982 (0.680)
Constant	-57.692*** (3.128)	-54.932*** (3.241)
R-squared	0.971	0.973
DF test	-4.112 **	-4.024
Observations	29	29

Source: Paqueo and Abrigo (2019), based on national income account, price indices estimates by the PSA, and national capital stock estimate from the World Penn Tables (Feenstra, et. al., 2015)

**PHILIPPINE LABOR PRODUCTIVITY IS LAGGING BEHIND PEERS:
ROOM FOR IMPROVEMENT**

Source: WDI, PSA and World Bank (2018a)

There is a prevalent and persistent belief that workers are exploited by capitalists and that labor market regulations and laws are needed for workers to receive higher wages to meet decent wage standards. On this score, critics of Philippine economic growth have questioned whether Filipino workers are benefiting from improvements in productivity. In this regard, they point to data showing that while the GDP per worker has been growing over time, the real wage indicator has not similarly increased (see Figure 3).

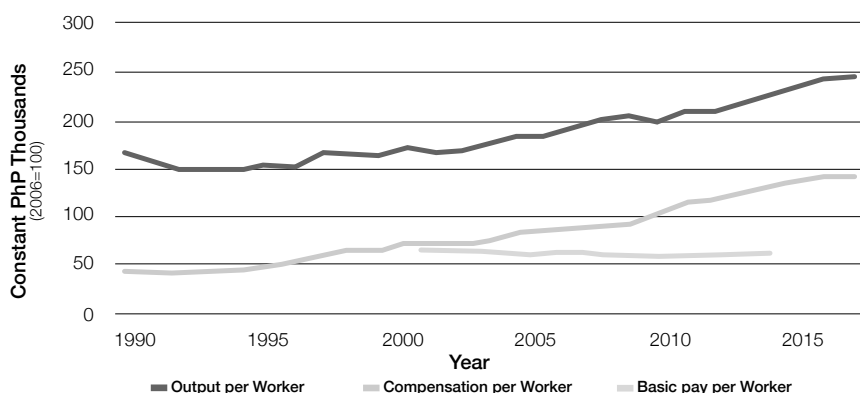
This finding appears contrary to the idea that in a competitive economy, increases in labor productivity automatically and proportionately raises real wages of workers, as textbook economics teaches about competition and labor markets. Some commentators have interpreted the data as evidence that capitalists are exploiting workers and depriving them their fair share of the benefits of productivity growth.

Further analysis, however, suggests that the supporting evidence for such conclusion is weak. In particular, the basic wage indicator does not include benefits and other types of compensation for work done, such as commissions, output-based remunerations, bonuses, and other non-wage payments to workers. Interestingly, when a more comprehensive measure of worker compensation per worker based on national accounts data is used, one finds that this indicator rises in parallel to the mentioned GDP per worker productivity, as shown in Figure 3. We also find that using cross section data, outcome indicators like household income and consumption expenditures per capita increase with the regional productivity of the region where a household is located. The probability of household poverty is lower when it is located in a region with a higher regional GDP per worker (see Table 1).

Trade union leaders and their political allies have been fighting nearly annually for government to legally compel employers to pay higher legal minimum wages (LMW) to increase workers' income. They have also been militant against the liberalization of labor regulations. In fact, they have been relentlessly pushing for stricter labor standards and employment protection laws, particularly about hiring, firing, and re-deployment of workers. These legal instruments have become the most favored tools of labor leaders and political allies. But, on increasing labor productivity, not so much.

Studies, however, suggest the need to temper the use of those instruments. Even if well-intentioned, the use of those tools could have unintended counter-

Figure 3 . Labor Productivity (LP) Rises with Compensation per Worker (Wage + Benefits) as Expected and Contrary to Anti-capitalist Critique



Source: Paqueo and Abrigo (2019), based on PSA, National Income Accounts and PSA/DOLE-BLES, Yearbook of Labor Statistics

Table 1 . Estimated Percentage Change in Selected Outcomes per 10-Percentage Points Change in Regional Goss Value Added per Worker (A Labor Productivity Indicator)

	Basic Daily Wage	Hours of Work	Probability of Employment in Elementary Occupation
Individual workers			
All sample	2.68	1.46	
Elementary (less skilled)	NS	5.25	
Other occupations	2.85	NS	
Any grade level			-1.38
High school and below			-1.99
High school graduate and above			-1.40
Households	Income per Capita	Consumption per Capita	Probability of Income Poverty
All households	3.47	1.28	-1.97
Ever poor	2.50	NS	-4.14
Never poor	4.05	1.78	

Source: Paqueo and Abrigo (2019)

Table 2 . Discriminatory Effects of High Legal Minimum Wages

LMW Impact On Change

Employment rate (Lanzona 2014)	-
All	-
Women	-
Young	-
Less educated	-
Hours of work of employed (Canales 2014)	-
Average family income (Paqueo et al. 2014)	+
Employment of enterprises (Lanzona 2014)	
Small scale	-
Large scale	+

Source: Paqueo, Orbeta and Lanzona (2017)

productive effects if overdone. On this point, Table 2 presents research findings indicating that in the Philippines, increases in LMW has had adverse counter-productive impacts on workers' employment, hours of work and average income of households, and poverty status of households. LMW impacts adversely disadvantaged groups – particularly the women, young, inexperienced, and less educated.

Those increases in LMW have also negatively impacted the employment demands of small- and medium-scale businesses. In contrast, higher LMW tends to have a positive correlation with the employment demand of big companies. This finding is noteworthy and needs further research on why higher LMW is associated with increased employment demand among big companies.

An international comparison of labor markets by the World Bank (see Table 3) indicates that the Philippines is significantly disadvantaged relative to its regional and aspirational peers and competitors like Singapore, Malaysia, Thailand, China, and Vietnam in terms of labor market efficiency. The Philippines has the highest LMW relative to the labor productivity of the seven countries shown in Table 3. Remarkably, in terms of hiring and firing practices, the Philippines appears to be the most impeded by regulations.

Indonesia is lower in labor market efficiency than the Philippines. But, to Indonesia's credit, it has already undertaken serious regulatory reforms recently to make its labor markets more efficient, less burdensome, and more flexible. The government showed remarkable determination to reform and improve the ability of the country to attract investors, create more jobs, and enable the country to

Table 3 . Philippine Labor Markets: High Labor Cost, Inflexible, Inefficient Due to Restrictive Laws and Regulations

Country	Labor Market Efficiency Score ^a	Rank in Labor Market Efficiency (Out of 144)	Selected Components (1-7)			Ratio of Minimum Wage to Average Value-added per Worker ^b
			Hiring and Firing Practices	Redundancy Costs, Weeks of Salary	Flexibility in Wage Determination	
Singapore	5.7	2	5.4	3.0	6.0	
Malaysia	4.8	19	4.9	23.9	5.5	0.23
China	4.6	37	4.6	27.4	4.8	0.33
Vietnam	4.4	49	3.9	24.6	5.1	0.60
Thailand	4.2	66	4.4	36.0	4.3	0.41
Philippines	4.0	91	3.4	27.4	4.8	0.69
Indonesia	3.8	110	4.3	57.8	4.4	0.55

a- score of 1 means heavily impeded by regulations, 7 means extremely flexible; b-means no minimum wage
Source: World Bank (2016)

adjust efficiently to the disruptions of the unfolding FIRE and take maximum advantage of the economic opportunities it brings (see Box 1). The Philippines could and should learn from the Indonesian experience and other neighboring countries on why, what, and how they are modernizing their labor laws and regulations.

Box 1 . The Nature of Fire and Implications for the Next Administration's Development Agenda

Opportunities and Challenges of FIRE

- Increased productivity and reduced production and distribution costs
- Widespread adoption of efficient labor-saving innovations (AI, computers, robotics, synthetic biology, internet of things, etc.)
- Constant re-skilling, upskilling and updating of knowledge
- Enterprises and business models are being created, discarded, and re-configured
- New jobs are being created and existing jobs destroyed or re-configured – resulting in high labor turnovers

Suggestions

- Systematically review existing policies and regulations ASAP, including the modernization of the Labor Code
- Agree on how to ensure that workers, employers and government will have the needed flexibility and capacity to survive and flourish under the FIRE
- Think together on how to improve the economic security of workers and their families, as job turnovers accelerate with the unfolding FIRE
- Raise the share of enterprise-based training output from about 3% to 15%
- Increase the Technical Education and Skills Development Authority's (TESDA) support for enterprise-based training
- Re-balance government control/restrictions and freedom/ flexibility in view of FIRE
- Revision of the law and regulation on apprenticeships and on-the-job training to level up enterprise-based training
- Strengthen unemployment insurance

Food for Thought for the Next Administration's Development Agenda

To sum it up, labor leaders and their allies have been reactionary in their response to changes in the business environment, which is increasingly being driven by new knowledge and technology. On this point, they have persistently and aggressively followed the usual strategy of using the power of the State to tie the hands of employers to compel them to pay higher wages. Similarly, organized labor has been pushing for tightening regulations to protect the jobs of incumbent employees by making it costly and difficult for companies to employ, train, re-deploy, and terminate workers as needed to survive or prosper.

Data, however, indicates that the above strategy has serious limitations. It has had counter-productive effects in the Philippines. That is, they have been shown to have adverse impact on aggregate employment, average household income and prevalence of poverty.² It is especially true for the women, young, inexperienced, and less educated, who incidentally are people with little human capital. Arguably,

the strategy has also made it more difficult to move people from low productivity informal sector work to high productivity formal sector employment.

Consequently, part of the next Administration's development agenda should be getting the labor sector to shift its strategic thinking. Over the years, the labor sector has pushed for laws and labor regulations that made it difficult and costly to cut jobs and terminate regular or tenured workers. They also fought to limit outsourcing and company employment of temporary workers. Then, during the time of President Duterte, leaders of the organized labor sector pushed the government to totally prohibit contract workers. The intent of labor leaders and their political allies is to eventually compel all companies to hire only regular employees, who will enjoy social security, job tenure rights, and other benefits.

In calling for a shift of strategy, we mean making the promotion of workers' productivity and support for upgrading their skills and acquisition of new competencies more central to the labor sector's development agenda. Further, in view of the LMW's negative effects on employment, the shift could mean tempering the demands for hefty LMW increases in the case of small- and medium-scale enterprises. On workers' need for more frequent upgrading of current skills and acquisition of new ones over their life cycle, the government could facilitate easier access to lifelong learning programs with the help of digital and AI technologies.

The new Administration should push for raising enterprise-based training outputs from 3 percent to 15 percent of total training output, which will align the Philippines with its regional and aspirational peers on the mentioned metric. Such training ranks high regarding effectiveness and relevance of competencies learned. Achieving this objective will require a combination of more government funding towards enterprise-based training and the reformation of policies and laws that make training costly, complicated, and restrictive (e.g., the Job Start and Apprenticeship Law and related regulations).

To complement such shift, the government should also support a timelier implementation of public infrastructure programs, strengthening the country's safety net programs, and making the country more attractive to foreign investment and tourism. On this score, labor and policy makers should take note of the strongly positive correlation between physical capital per worker and compensation per worker. One way of looking at this statistical relationship is that a good investment environment is beneficial not only to capitalists but also to labor. This thought should invite labor employers and government to sit down

together and look for a package of measures whose impact taken together will be beneficial to all stakeholders.

The elements of the agreed package (or social contract) could include, for example: (i) faster completion of government infrastructure programs; (ii) reform of labor laws and regulations on the hiring, termination, training, and deployment of workers; (iii) an increase in TESDA's investment in enterprise-based training; and (iv) an enhanced unemployment insurance system with agreed contributions from employers, workers, and government. The underlying idea here is that this combination of measures will lead to an economy so dynamic and efficient that finding a gainful job will be sufficiently easy and that job termination will cease to be a dreadful economic security issue.

The Education System

Performance and Challenges

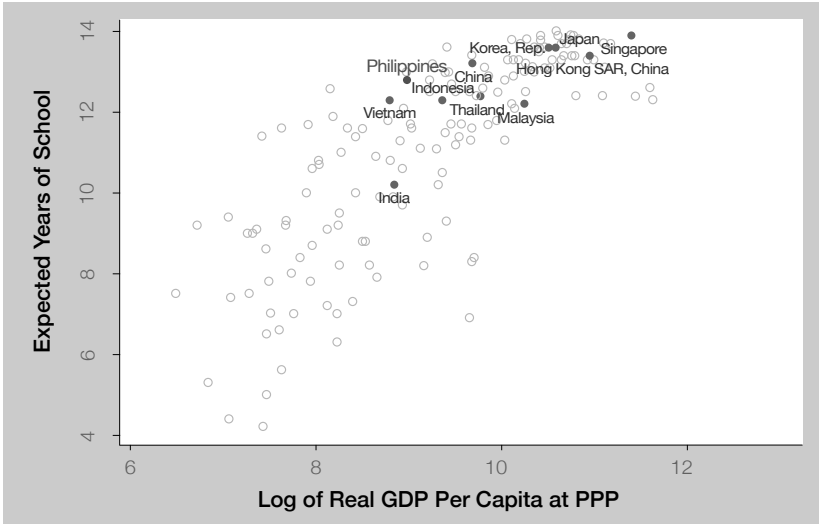
*Basic Education.*³ In years of schooling completed by the time they reach 18 years old, young Filipinos on average can expect to attain an education level that is one of the highest among economies with a similar GDP per capita. This finding is based on an international comparative study by the World Bank (2018). See Figure 4.1.

However, this same study shows a learning gap of about 4.4 years between years of education completed and the actual learning achieved by Filipino students (Figure 4.2). An updated estimate puts the learning gap at 5.5 years in 2020.⁴ The learning gap suggests that the time spent by students in school is not being used well. Compared to their regional counterparts, the average Filipino student learns much less per year of education completed.

The differences in the learning gap in Figure 4.2 reflect differences in the quality and efficiency of the countries' education systems. In particular, the graph suggests that school children's time are less efficiently used in the Philippines than other economically comparable countries.

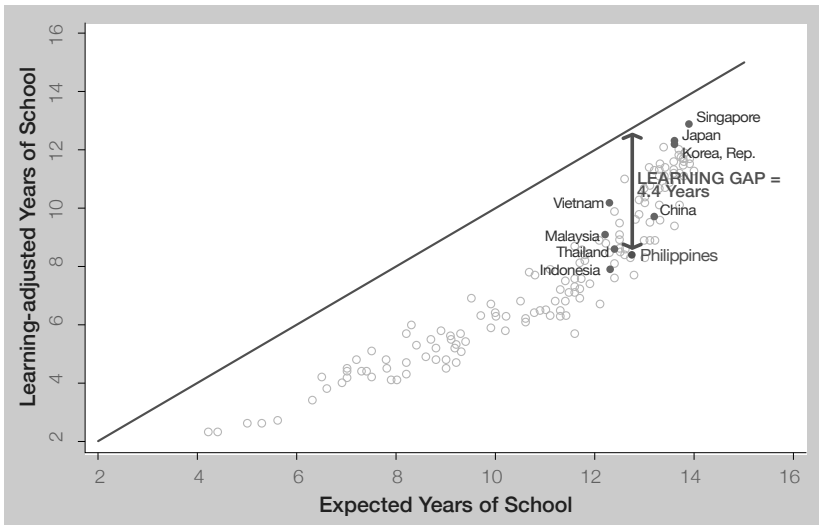
Figures 4.3a, 4.3b and 4.3c present an international comparison of standardized test scores drawn from data from the Programme for International Student Assessment (PISA). As Paqueo, Orbeta, King and Melad (2021, p.23) observes, they are notable for three reasons:

Figure 4.1 . Expected Years of School and Log of GDP per Capita (at PPP)



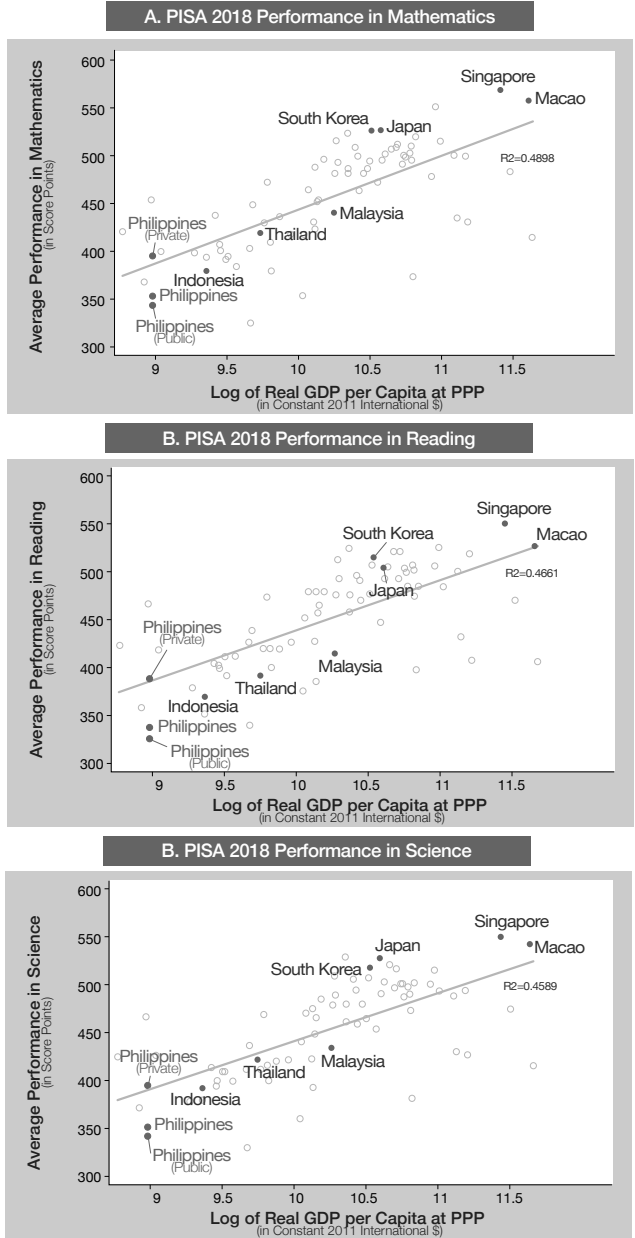
Source of Basic Data: World Bank Human Capital Project 2018 and World Bank-WDI

Figure 4.2 . Learning Gap in Philippines is 4.4 Years



Source of Basic Data: World Bank Human Capital Project 2018 and World Bank-WDI

Figure 4.3 . Average Performance of Countries in Mathematics, Reading, and Science Based on PISA, 2018 by Log of GDP per Capita (at PPP)



Source of Basic Data: PISA 2018, OECD

First, they show that the Philippines is at or next to the bottom of the ranking of PISA-participating countries in mathematics, science and reading test scores. Second, the average scores of Filipino students are less than those obtained by their counterparts in other countries with similar level of GDP per capita. Third, interestingly, private school students in the Philippines were able to achieve test scores that are on par with the average students of countries with the same level of per capita GDP as the Philippines.

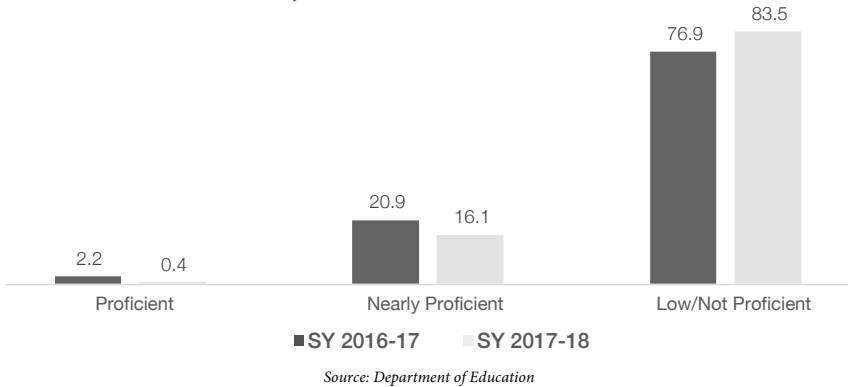
The PISA finding that the Philippine education system is performing less effectively in terms of student learning achievement is in line with findings of other studies. For example, the Trends in International Mathematics and Science Study (TIMSS 2019) found low levels of proficiency achieved by Filipino students. Specifically, it reports that over 81% of Grade 4 students in 2019 did not reach the lowest category of its international benchmark (Mullis, et al., 2020) while the corresponding percentage in the 2003 assessment was much lower at 59% (Mullis, et al., 2005), as pointed out by (Igarashi & Suryadarma, 2021).

The bigger story from their analysis of the TIMSS and other databases is that the lack of foundational skills is constraining the ability of many Filipino students to raise their learning achievement at higher grade levels. Equally concerning is the suggestion by Igarashi and Suryadarma (2021) that “major education reforms implemented by the Philippine government since 2012 may have successfully improved reading skills, but not mathematics skills”.

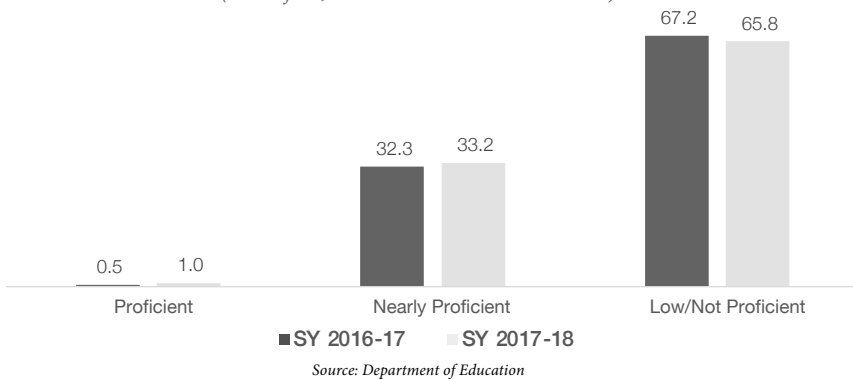
The findings of the above international surveys on students are consistent with data collected by the Department of Education (DepEd). Figure 4.4 shows that the percentage of Grade 6 students who scored on or above minimum proficiency level is only 2.2% or less. For Grade 10 students (see Figure 4.5), the story is the same.

Figures 4.4 and 4.5 show the performance of Grade 6 and Grade 10 students in the school year (SY) 2016-17 and SY 2017-18 administration of the National Achievement Test (NAT). Unlike the previous NAT, the assessment starting SY 2016-17 focuses on the measurement of proficiency levels of students in 21st century skills such as Problem Solving, Information Literacy, and Critical Thinking Skills. The results among Grade 6 students show that around 8 out of 10 students have no or low proficiency in 21st century skills. A slightly better performance is observed among Grade 10 students, where only around 7 out of 10 have no or low proficiency in the skillsets covered.

*Figure 4.4 . Percentage of Grade 6 students by Level of Proficiency
(All subjects, NAT SY 2016-17 and SY 2017-18)*



*Figure 4.5 . Percentage of Grade 10 students by Level of Proficiency
(All subjects, NAT SY 2016-17 and SY 2017-18)*



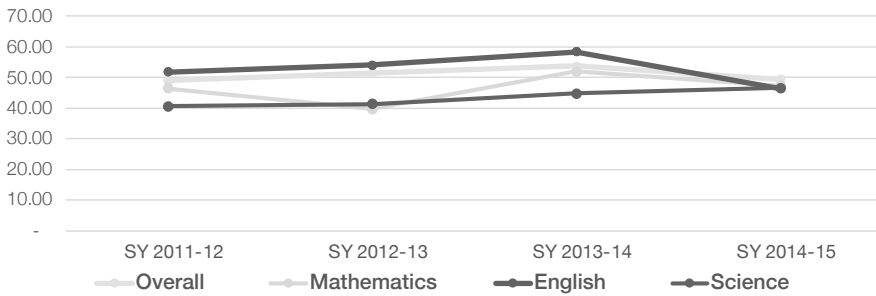
To add to the seriousness of the education challenge facing the Philippines, one finds that the proficiency levels of Filipino students are not only low; they also appear to be in stasis (more or less flat for years). It is concerning how the Philippine education system appears to have been trapped in a low-level equilibrium in student learning.

Higher Education. The Philippines had a higher education (HE) system that was once touted as a model for achieving a proportion of the population enrolled in post-secondary education that was second only to the US, as noted by Kim and Hunt (1968). This finding reflects the fact that the Philippines started earlier than other developing countries to make higher education accessible to the masses

and not just to the few privileged elite. In time, however, rapidly growing and industrializing developing countries like Korea, Malaysia and Thailand overtook the Philippines, as shown by Figure 4.8. Later, many more countries caught up with the Philippines, some of which proceeded to overtake it. In this regard, Licuanan (2017) points out that by 2017, the Philippines was overtaken by Southeast Asian countries except Lao PDR, Cambodia, and Myanmar.⁵ Overall, the tertiary education enrollment rates of the Philippines and of middle-income countries are now on par.

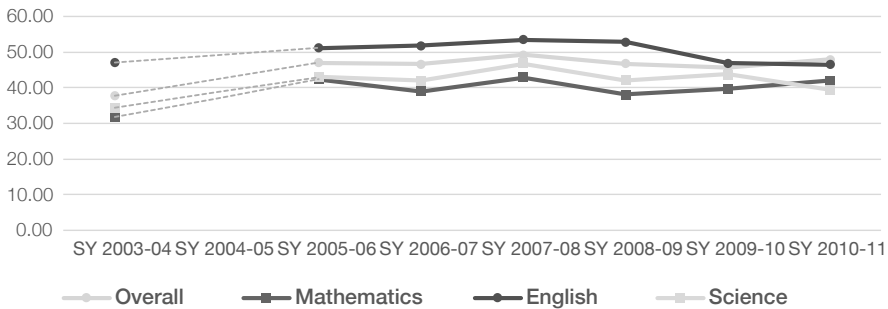
Anecdotal evidence also suggests that the quality of Philippine HE has been highly respectable, at least in the past. At the start of the Post-World War II era until the early 80s, there were many students from Southeast Asian countries like Thailand and Indonesia who undertook graduate studies in top Philippine

Figure 4.6 . NAT Scores of Grade 10 Students
(SY 2011-12 to SY 2014-15)



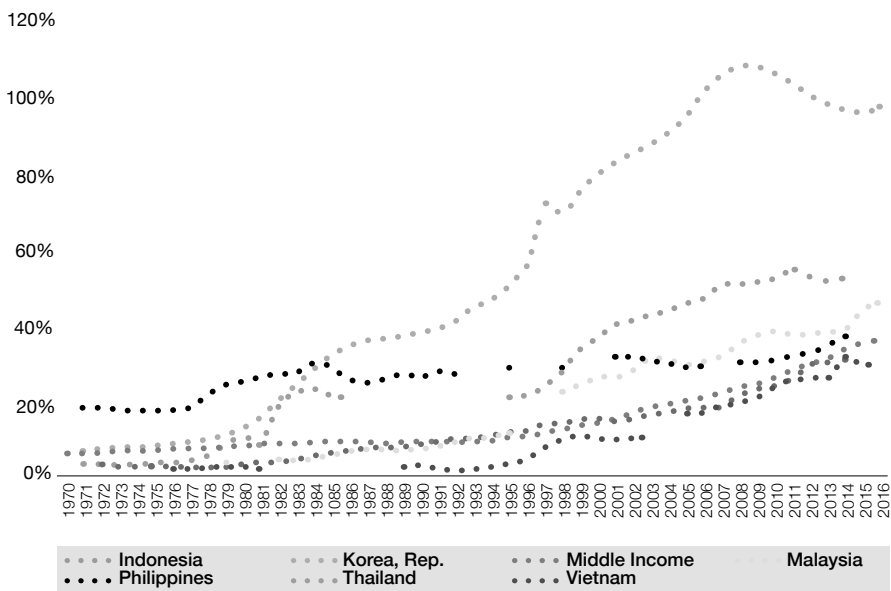
Source: Department of Education

Figure 4.7 . NAT Scores of Grade 8 Students
(SY 2003-04, and SY 2005-06 to SY 2014-15)



Source: Department of Education

Figure 4.8 . Tertiary Enrollment Comparison Between the Philippines, Regional Peers and the Average of Middle-Income Countries (In Percentage)



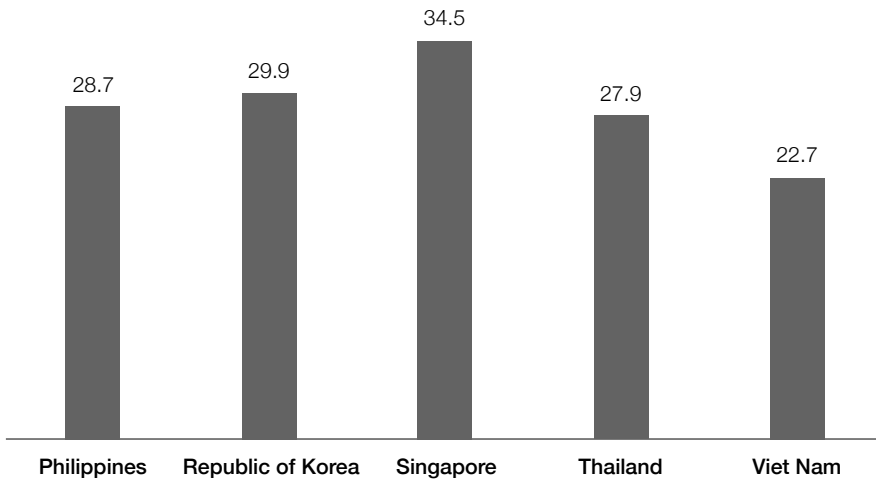
Source: data.worldbank.org

higher education institutions. But as Bautista, Paqueo and Orbeta (2021) noted, eventually, “the early edge of the Philippines in graduate education eroded with the ASEAN economies and HEIs surpassing the country’s economic and educational development” (p. 10). Still, Philippine tertiary education graduates remains in demand and valued locally and internationally, as evidenced by the high rates of return to investment in higher education (see Figure 4.10) and sustained demand for OFWs and their skills abroad.

In terms of the quality of its outputs, the performance of the HE system is mixed. Using the percentage of STEM graduates in tertiary education as a quantitative indicator, we find that the Philippine HE system compares very well with Korea, Thailand, and Malaysia.

There are, however, indicators pointing to weaknesses in the country’s HE system that should concern forward-looking education leaders and policymakers considering the fast-emerging FIRE. It is difficult to accurately characterize the quality of outcomes of higher education due to issues of interpretation and

Figure 4.9 . Percentage of STEM Graduates in Tertiary Education, 2016
(In Percentage)



Source: data.worldbank.org

validity. Nevertheless, we use those indicators for lack of better alternatives.

Table 4 reprinted from Bautista, Paqueo and Orbeta (2021) presents data on indicators often used to characterize quality of higher education institutions. The table shows information on the passing rate of first-time takers of the Professional Board Examinations (PBE). The rate ranges from 50% to 61%. A huge percentage (39% to 50%) failed in their first attempt. Another quality indicator in the table is the percentage of HEIs with accredited programs. According to CHED data in Table 4, this indicator, which was only 20% in 2009, rose to 29% in 2018. While this is a significant improvement, this is still low. Another measure of the quality of HEIs is the quality of faculty, indicated by the proportion with graduate degrees. The quality of faculty appears to be improving, albeit slowly. The proportion of faculty with graduate degrees from 2009 to 2019 gradually increased, from 45% in 2009 to 54% in 2019. Meanwhile, those with PhD degrees increased from 10% in 2009 to 17% in 2018 (Table 4).

Another outcome indicator we use here is the rate of return to higher education. Figure 4.10 presents the estimated rates of return to higher education broken down by public or private type of higher education institution. In general, the estimated rates of return are high, ranging from 16% to 30%. They appear to be

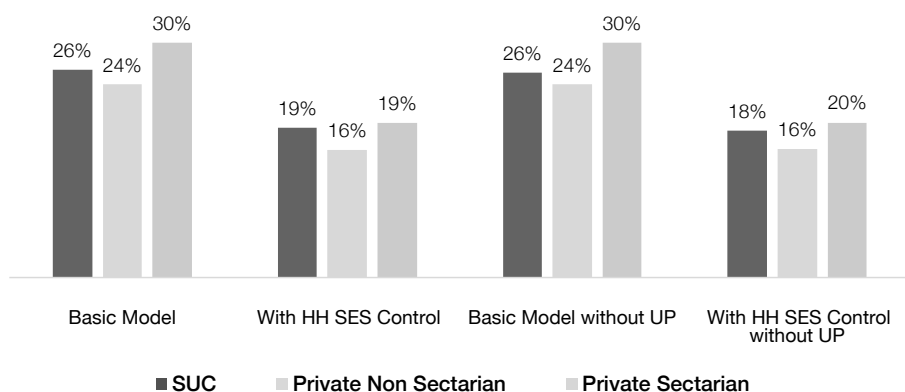
Table 4 . Quality of Higher Education Institution Indicators

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Performance (% Passing) in licensure examination										
Across all disciplines (Over-all takers)	36	34	36	43	39	40	39	38	37	38
Across all disciplines (First Time takers)	50	50	54	61	60	60	59	56	57	56
Faculty Qualification										
% with graduate degrees	45	50	54	50	53	53	53	54	54	54
% with PhD	10	11	13	11	12	13	13	13	14	17
Accreditation										
% of HEIs with Accredited Programs	20	20	22	22	24	25	27	28	29	29

Source: CHED. Table reprinted from Bautista, Paqueo and Orbeta (2022, forthcoming)

highest for private sectarian higher education institutions, though the differences among types of schools are statistically not significant. The information suggests that in the Philippines, it is profitable for an individual to invest in higher education.

Table 4.10 . Annualized Rates of Return on Wages by Type of HEI, 2013



Source: Basic data from APIS 2013 (PSA, 2013). Reprinted from Paqueo, Orbeta and King (2019)

Drivers of Education Performance

There are many factors that drive the performance of the education system and school performance. They include, among others: the relative importance of the roles of public and private sectors, an enabling and policy environment, accountability and incentive structure, teacher capability and school culture, and the state of knowledge and technology. The following discussion spotlights selected issues involving those factors. Underlying the discussion is a simplified mental model, in which resources are combined and inserted into specific processes and get converted under certain conditions into outputs and outcomes.



Education Expenditure and Student Learning. A common complaint against the poor quality of education and low learning achievement of students in the Philippines is the lack of funds for schools. Undoubtedly, ample funds are important to enable schools to hire effective teachers, train them well, buy education materials and equipment in short supply, and fund purchases of other inputs to properly run schools.

The question is, how much does raising the level of education spending matter in explaining the country's stasis at low level of student learning achievement and in getting it up sustainably? Many scholars claim that given the existing inefficiencies of national education systems and management of their schools, it is unlikely that increasing education spending will necessarily lead to significant improvements in school quality and student learning. Many empirical studies in the past have supported this claim. More recent studies, however, cast doubts on that claim and have taken a different view.⁶

Noting the mixed findings reported in previous literature, Abrigo (2021) looked at the issue in the Philippine context using PISA data. His empirical

analysis indicates that basic education spending per capita correlates significantly in the Philippines, as seen in the following figures. In science, mathematics, and reading, the graphs below consistently indicate that student learning rises rapidly with increases in cumulative basic education expenditure (See Figures 5.11 A, B and C). These findings signal that an important reason why the Philippines is next to the bottom of the ranking of countries included in the PISA survey is likely due to its low cumulative basic education expenditure. The graphs also clearly indicate that student learning rises faster among countries at lower levels of spending and test scores, suggesting that student learning would probably rise much more steeply in the Philippines, if it were to raise basic education spending to a much higher level.

Figure 5.11 . Education Quality and Cumulative Basic Education Consumption

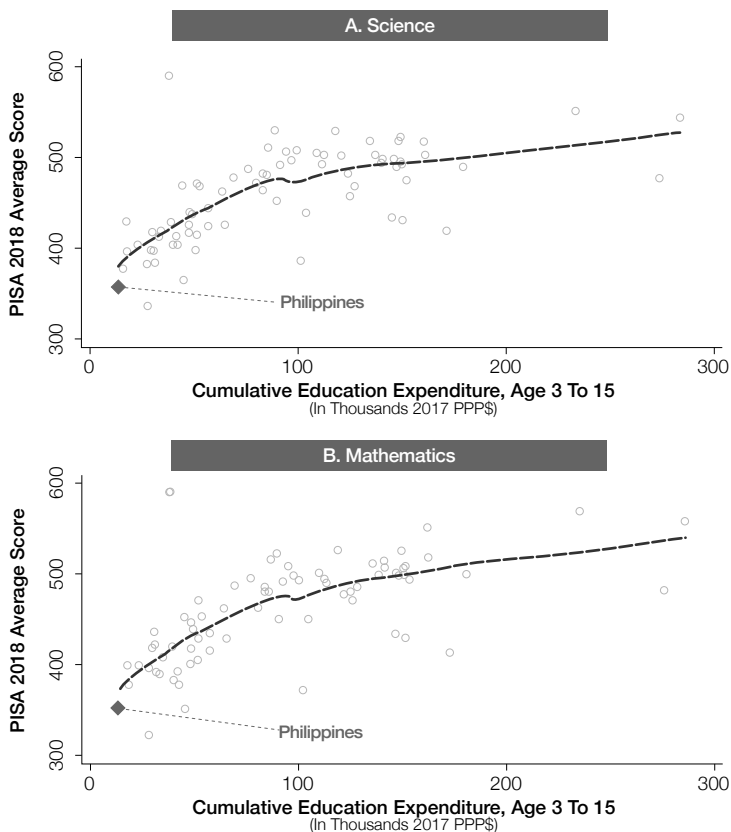
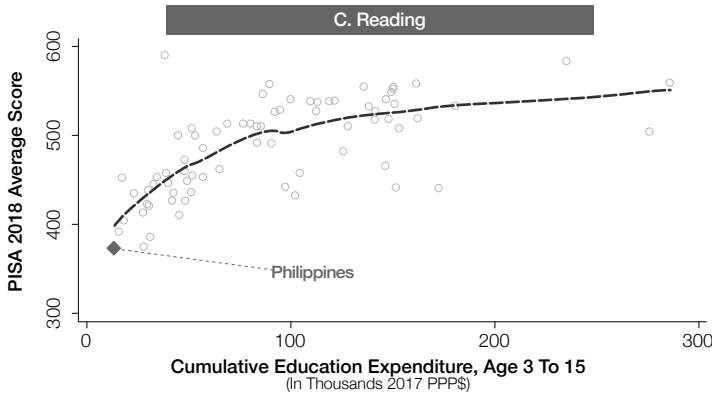


Figure 5.11 . Education Quality and Cumulative Basic Education Consumption



Note: Cumulative basic education consumption values are based on the simple sum of per capita public and private education consumption up to age 15. Presented values are modelled estimates using per capita GDP, total fertility rate and government share in consumption as predictors. Reprinted from Abrigo (2021)

Source: Author's [Abrigo] calculations based on recent NTA data from www.ntaccounts.org, and OECD (2019).

Issue of Efficiency. The need to convert resources more efficiently remains an issue, considering past difficulties in raising new taxes or reallocating funds to education from other sectors. In the study cited above, Abrigo (2021) examined the technical efficiency of Philippine education, applying production possibility frontier analysis on the same PISA data. He finds that “[if] the Philippines have fully maximized the use of its inputs it should have scored closer to 400 points in each of the test subjects, instead of the 340 to 360 observed range.” This suggests that improving the technical efficiency of the country’s education program along with some increases in the budget can yield much bigger improvements in student learning. The conclusion then is that there is scope for raising school quality and student learning by improving the technical efficiency of the national education system. The practical question is, how?

At the opening paragraphs of Section 3, we present data showing that on average students in private schools perform significantly better than those in public schools. This differential can be due to differences in the socioeconomic background and other characteristics of public and private school students. To see what other factors are driving the public and private student learning gap,

Paqueo, Orbeta, King, and Melad (2021) examined the reasons why public-school students score higher in the PISA tests than private school students.

The study concluded that even controlling socioeconomic background characteristics, private school students on average scored higher than their public-school counterparts. It also found that private schools are more resourceful and productive in the use of available education inputs. Specifically, the following additional findings are noteworthy. First, as expected, shortages of education materials are negatively correlated with test scores in math, science and reading. Interestingly, they are significant in all three tests for public school students. In contrast, the correlations are not statistically significant for private school students. This finding suggests that compared to its public education counterparts, private schools have the resourcefulness to avoid serious adverse effects of shortages of education materials on learning outcomes.

The study also found that the index proportion of all teachers fully certified is significantly correlated with test scores among private school students in all three subjects, but not among their public-school counterparts. This result points to the idea that there is something different between public and private schools that differentially motivates and/or enables the latter to be more effective in implementing quality improvement measures.

Further along, student test scores and proportion of all teachers with ISCED level 5A (masters), usually considered an indicator of school quality, was found to be uncorrelated, except in science for private school students. In this exceptional case, the regression coefficient of the mentioned teacher quality indicator was found to be positive, significant, and large (106.3 points compared to the average science test score of 357 for all students). This finding indicates the desirability of getting a larger proportion of teachers with master's degrees to teach science literacy. But it is equally important to also keep in mind that this measure is not a panacea. As mentioned, it is not significantly correlated with test scores in math and reading among students in public as well as private schools.

Similarly, one must be careful about expensive measures like hiring more teachers to reduce class size, which is widely believed to be a solution to improve poor quality teaching. In all three domains of knowledge, this measure is not significantly correlated with test scores except perhaps, as suggested in the literature, if the reduction in class size is large enough to get it down to less than 20 students, which is an expensive proposition.

Public-Private Partnerships

The preceding discussion spotlights the ability of private schools to produce better quality and market relevant education than their public-school counterparts. Additionally, private schools can and have delivered cost-effective government-funded education programs to provide students with places to enroll in for high school education.⁷

The practical question then is, how can government harness the private education sector to maximize the ability of the Philippines to produce the level and kind of education wanted by students, their families, and by society?

There are ways of harnessing private schools for that purpose. One is through public-private partnership (PPP) schemes where government, DepEd and private schools collaborate. This type of scheme has already been developed and implemented with the support of Government Assistance to Students and Teachers in Private Education (GASTPE). Three programs, which were recently reviewed for DepEd under ADB's technical assistance program, are worth mentioning here.⁸ These are: Educational Service Contract (ESC), Senior High School Voucher (SHSVP) and Joint Delivery Voucher-Technical Vocational Livelihood (JDV-TVL) programs. The last two schemes are voucher programs that seek to enable eligible students to enroll in private schools of their choice that are registered in an approved list of SHSVP school providers. The ESC is a long-standing scheme that has been used to address public school congestion.

The three PPPs form part of government innovative efforts to achieve universal access to quality basic education. The idea behind the ESC, SHSVP and JDVP-TVL programs is to use the government's financial muscle to harness

Box 2 . SHSVP, and JDV-TVL Voucher Schemes

The SHSVP (Senior High School Voucher Program) supports the implementation of the K-to-12 reform, which adds two more years of Senior High School (SHS) to the basic education cycle (originally 10 years). Due to lack of classrooms, specialized teachers, and facilities for SHS in public schools, DepEd developed and established the SHSVP. The program was also envisioned to enable students, even those coming from less affluent families to study in private schools of their choice. For both ESC and SHSVP, the government provides additional support through school-based In-Service Training (INSET) for private school teachers and administrators participating in those programs.

The JDVP-TVL (Joint Delivery Voucher) program is also a voucher program that enables public senior high schools to partner with eligible private education institutions offering SHS-TVL. The aim is to strengthen the course offerings of the former and enhance the TVL (Technical Vocational Livelihood) learning experience of their students.

Source: Paqueo and Orbeta (forthcoming)

the economic and educational capabilities of the private sector to achieve public purposes in education. Using tax money, the government is tapping into private education capabilities through these programs to improve access and quality of education provided to Filipino students. These PPPs are in line with the Philippine Constitution, Government Assistance to Students and Teachers in Private Education (GASTPE), Enhanced GASTPE (EGASTPE), and related laws.

The main conclusion of the assessment is that the objectives, rationale, design and implicit theory of change of the three programs are plausible and coherent. In fact, they are working reasonably well on the ground, and they are cost-effective. It would have cost more to educate students at DepEd schools.

Moreover, stakeholders are generally satisfied with the programs. In particular, students and parents are so satisfied with the programs that they generally want the government not only to continue them but also to keep them as a permanent part of the government's long-term strategy to improve access to quality basic education. Those sentiments reported by the assessment study have been confirmed by results of a poll survey conducted by the Social Weather Stations (SWS) in 2021 for the Paqueo, Orbeta, King and Melad (2021) report. See Table 5 below.

Table 5. Opinion on the SHS Voucher Program and a Similar Program for JHS

Response	Do you like the SHS Voucher program for your children or future children? (%)	Would you like a similar voucher program for your children or future children in JHS? (%)
Yes	83	85
No	4	4
I don't have enough knowledge to give an opinion	13	11

Source: Paqueo and Abrigo (2019)

The programs were found to contribute to improving education outcomes by: (i) promoting efficiency of a mixed public-private education system; (ii) promoting choice which, in turn, promote greater individual well-being by empowering and enabling students/parents; and (iii) promoting diversity of providers leading to greater competition, which, if managed well, could lead to improvements in efficiency. There are, however, important challenges that need to be addressed. Despite those challenges, the programs largely appear to be well implemented, broadly as designed. See Box 3.

Box 3 . ESC, SHSVP, and JDV-TVL Assessment: Summary of Challenges and Recommendations

Paqueo and Orbeta (forthcoming) recently assessed the performance of three education PPP programs (ESC, SHSVP and JDV-TVL). Its findings can be summarized as follows. First, the study finds that the programs have largely been well executed according to design and plan. Moreover, data suggest that they are likely to significantly contribute to the improvement of education outcomes. But second, there are important issues that need to be addressed for the country to be able to fully benefit from those programs. These issues include, among others:

a. Inadequate inclusion of poor, indigenous, and disabled students into the programs due to lack of effective targeting.

b. Insufficient amount of financial assistance per student. The subsidy is less than what beneficiaries, especially economically disadvantaged children, would need to pay the full cost of studying in a high-quality private school.

c. Long government delays in paying participating schools' overdue amounts for services rendered, thereby increasing their financing cost, and making some private education investors wary of participating in the voucher programs.

d. Need to establish a quality assurance (QA) scheme to strengthen continuous improvements in the quality of education provided by schools participating in the voucher programs

e. Failure to resolve the legal status of the Private Education Assistance Committee (PEAC) to ensure that implementation of the ESC and SHSVP continues to be well managed and done in accordance with law.

f. Lack of a clear and shared vision of the role of private education in the development of an integrated national education system and of the long-term future of education PPPs. On this score, there has been confusion on whether the voucher programs are part of the long-term education strategy of the government or are only stop gap measures to be ended once government has built enough public Senior High Schools that can provide quality education. As a result, there has been a lack of coherence in government/DepEd policies and actions. For example, government education policies have had the unintended consequence of marginalizing private schools (see Box 4) even though they provide better quality education compared to their public-school counterparts (and a lower cost, to boot). Further, DepEd has ramped up construction of public schools and classrooms despite availability of underutilized private school capacity to deliver better quality education at a lower cost to the government.

The study, therefore, suggests a variety of measures to maximize the benefits from education PPPs. These measures include inter alia the following recommended actions:

(i) Rationalize the value of the student financial assistance provided by ESC and voucher programs that is commensurate with the full cost of providing good quality education. On this score, it is further recommended that the determination of the

*Box 3 . ESC, SHSVP, and JDV-TVL Assessment:
Summary of Challenges and Recommendations*

student subsidy for studying in private should be anchored on public finance principles of efficiency and equity. These suggestions address the clamor to target the poor, indigenous and disabled beneficiaries for greater social inclusion. Apropos, the above recommendations can be achieved by establishing a policy explicitly targeting disadvantaged beneficiaries based on measurable indicators. Additionally, such policy should provide those beneficiaries with a level of financial support that would enable them to take full advantage of the opportunity to study in good quality private schools. In practice, greater inclusion would essentially mean providing more education subsidies in favor of the deserving poor and culturally disadvantaged students.

(iii) Improve the design of the PPPs and strengthen their operations, building on their implementation experiences. For example, the government could ensure that private schools participating in the voucher programs are paid on time to lower participating schools' financing costs. Another example is establishing for the SHSVP and JDV-TVL programs quality assurance (QA) schemes like that adopted by the ESC program. The QA scheme should enable and motivate continuous improvement in the quality of education provided by participating schools. A further example is for DepEd to strengthen its oversight function by increasing the frequency of spot-checking, setting tougher penalties for fake (ghost) enrollments, and taking timely actions on reported cases of billing malfeasance. Relatedly, the government needs to take immediate action on the issue of PEAC's status as a private institution.

(iv) Clarify and/or modify the objectives of the PPPs and their intended beneficiaries in response to changing realities. These relate inter alia to the study's finding that congestion in public schools (the original and principal justification of the ESC program) is less widespread now than before. In contrast, other determinants of school quality and student learning have been rising in importance. To this point, the assessment study recommends that while it would be desirable for ESC to continue playing an important role in decongesting public schools in a few densely populated areas, it is probably better to focus future investment in education PPPs on strengthening and expanding the voucher programs. These are much more flexible instruments that can be used for efficiently dealing with a wide range of school quality issues (not just congestion), targeting of education assistance to different disadvantaged schools and student population groups, providing more freedom of choice for parents/students, making education more demand-driven, and promoting healthy competition among schools.

(v) Establish a policy framework, develop a long-term perspective plan and layout a strategic road map to guide the establishment of an efficient and well-integrated education system that capitalizes on the strengths of the public and private education sectors. These policy framework, perspective plan and road map are needed to ensure effective coordination of policies and programs affecting the development of the country's national education system. This recommendation should address the need to reduce private sector's prevailing concerns about the uncertainty and risk of investing in schools capable of providing higher quality education.

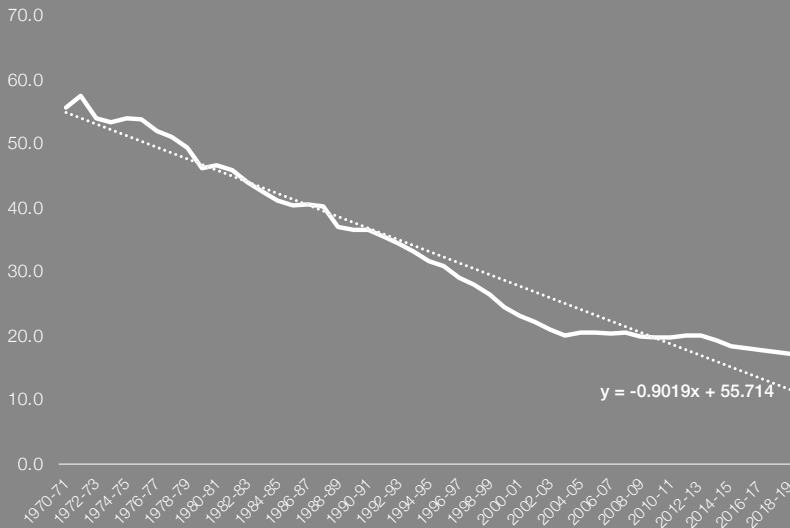
Clarifying and Operationalizing Public-Private Education Complementarity Mandate. It was wise for the Framers of the Constitution to recognize the valuable contributions of the private sector to education and the necessity for the government to work complementarily with private schools. The Framers recognize that the public sector cannot achieve by itself the country’s ambitious national education goals without private sector support.

What it means exactly for the public and private sectors to work complementarily in education was left to the wisdom of the Legislature and political leaders. Until now, however, they have neither defined and clarified systematically what public-private complementarity in education means; nor have they come up with an authoritative framework to guide education policies for operationalizing and implementing the mandate.

Box 4 . Adverse Effect of Education Policies on Private Schools Illustrated

This Box highlights the often-forgotten fact that public school policies do not only affect public schools but private schools as well. We illustrate this fact by showing how private schools have been marginalized over the years, as vividly demonstrated by the decline of private school share in Junior High School (JHS) enrollment over the years. The graph below shows that in SY 1970-71, the share of private schools is 56% (Figure 4.1). This has steadily gone down to 17% in SY 2018-19, which shows a consistent decline by almost 1% per year.

*Share of Enrollment of Private School in Junior High School
(SY 1970-71 To SY 2018-19)*



Source : : PSA Philippine Statistical Yearbook, various years

In the meantime, the national education system has evolved in ways that have led to the substitution of the public for public schools through policies, regulations and programs that have had intentional or unintentional adverse consequences.

An example of those consequences is the marginalization of public schools as illustrated by the steady long-term decline in the share of private schools in total enrollment in basic and higher education. Box 4 shows such a decline for secondary education. The decline in private sector share in enrollment means that over time, an average student gets to learn less as more children are being shifted towards less cost-effective schools.

Conclusions and Recommendations

The future is expected to bring with it revolutionary opportunities for wealth creation and for making people's lives better. But, to maximize the ability of the Philippines to profit from those opportunities, it must come to grips with difficult challenges ahead. It must ramp up its efforts to address both long-standing problems and emerging issues. At the heart of those challenges is people's demand for faster, more inclusive, and sustained expansion of jobs and rising wages and benefits at the same time. The practical question that the next President will likely ask his advisers is: How can I meet those challenges?

A critical part of the answer to that question is rapid and sustained labor productivity growth. Nobel Laureate for Economics Paul Krugman (1994) captured the importance of productivity growth to the development process with this quip: "Productivity isn't everything, but, in the long run, is almost everything." That's how important growth of productivity is regarded in economic history.

On this point, education is one of the most important tools for achieving sustained productivity growth and, to boot, inclusivity if done right. Hence, it is critical for the new Administration to include a robust agenda for education development, especially regarding basic education. The country's current and future workforce, particularly those from socially and economically disadvantaged families, are not getting the competencies needed to take advantage of emerging innovations and economic opportunities that the FIRE is bringing about.

Further on that point, the next Administration should seek to modernize the labor code of the Philippines. This objective is important to improve the ability

of workers and employers to adjust opportunely to changes in the business environment to maximize their benefits from advances in knowledge and technology. Those changes refer to the disruptions that advances in AI-driven automation and other technologies will bring about. As the FIRE unfolds, more new jobs will be created, while old jobs will be destroyed or re-configured. These disruptions are expected to become part of a new normal that will necessitate workers to move more often from old to new or reconfigured jobs.

But for the necessary adjustments of the labor code to happen, the new Administration must take measures to assure workers that they will have a fair share of the benefits from labor productivity improvements. Moreover, relaxing job tenure rules, hiring of temporary workers, and other rules like those governing outsourcing or contracting out work to other enterprises might have to be bought at the price of a stronger unemployment insurance system. Workers might further want access to affordable good quality lifelong learning centers to acquire the competencies necessarily to qualify for better alternative jobs.

Part of the next Administration's agenda, therefore, would be for the government to convene and sit down with the leaders of organized labor and employers to hammer out a tripartite deal or social contract. Such a contract should include a package of credible measures that will:

1. Raise the productivity and competencies of workers through education and training.
2. Facilitate business investment in innovations and physical capital (domestic and foreign);
3. Undertake timely construction of needed public infrastructures, modernization of the labor code, and strengthening of the unemployment insurance system.

Those measures should improve the viability and profitability of new and existing enterprises needed to support the sustained expansion of jobs, rising labor wages and benefits, and income security of workers. The strategy underlying the above approach is to implement a combination of measures that will make the economy so dynamic and efficient that there will be plenty of well-paying jobs to choose from. And with a good unemployment insurance system and other social safety nets, the economic security issue becomes manageable.

Education, School Quality and Student Learning. For the next Administration's development agenda for education, we argue that it should prioritize education quality and student learning achievement over establishing and expanding universal free education at both basic and higher education levels. In the past, getting all children in school was the predominant priority of all previous Administrations.

The time has come for a recalibration of priorities to ensure that students learn the competences and knowledge needed to be good citizens and productive workers of the future. This recalibration is needed for the country to be able to catch up and keep pace with its competitors and aspirational peers. For while the Philippines compares well with middle-income countries in terms of number of years of schooling the young can expect to complete by age 18, it hugely lags behind the learning achievement of students in comparator countries at both the basic and higher education levels. Moreover, the re-calibration should be done urgently; otherwise, the Philippines will not be able to catch up and successfully compete globally and take advantage of the unprecedented advances in knowledge and technology, as the FIRE unfolds.

Achieving the above-mentioned education goals of emphasizing student learning achievement and education quality improvement while continuing to facilitate access of disadvantaged students to schools requires long-term increases in spending on the education and training sector. Data indicates that increases in education spending is critical to reach the learning achievement levels of the country's aspirational peers. Data, moreover, shows that to maximize the impact of education expenditures, it is important to make sure that sector resources are used effectively and efficiently. That is, it is critical for the education inputs and reforms to be transformative. They should be fully converted to outputs and outcomes.

What then can be done to sustainably raise the performance of the national education system regarding student learning? Box 5 presents a list of measures that the next Administration might want to further explore. The context and reasoning behind suggested measures are discussed in Section 4.

Productivity, Training, and Jobs. The core message of Section 3 is that to achieve sustained rise in worker's wages and benefits (compensation), productivity growth must rise, and that organized labor must focus more on growing their

Box 5 . List of Proposals for the Next Administration's Development Agenda for Education

1. Re-calibrating government focus from “massification” of low-quality education to raising student learning achievements

2. Increasing government funding of education to at least 5 percent of GDP to be more in line with the country's aspirational peers. The Philippines has been underspending in education compared its regional aspirational peers. In 2015, the combined public and private education spending of the Philippines was only about 4.5% of GDP. The corresponding figures for its regional aspirational peers ranged from 5-0% to 6.3% (see Annex A1). Part of the reason is that Philippine government spending on education as a share of GDP has been lagging behind that of comparator countries (see Annex A2).

3. Better use of available education resources to achieve better quality and more cost-effective education. This target can be achieved by:

a. Promoting healthy competition among public and private schools by enabling students to go to schools of their choice and leveling the playing field between public and private schools (currently unfavorable to private education)

b. Establishing policy providing education subsidies to students regardless of whether they go to public or private schools

c. Strengthening and expanding DepEd's voucher programs providing financial assistance to students who choose to enroll in eligible private schools and increasing the value of the vouchers for target students to include more poor children and to reward academic excellence

d. Enabling the private education sector to play a more enhanced role in developing, piloting, and disseminating educational innovations to ensure that: (1) what children are learning in schools are responsive to market changes; and (2) teaching-learning methods and materials that address important issues facing public and private students and teachers are produced. [For example, some private school leaders have suggested that the law requiring compliance with standardized curricula governing public schools should be revisited and modified to allow private and public schools in partnership with DepEd to develop and test non-standard curricula.

e. Establishing a policy framework, developing a long-term perspective plan, and laying out a strategic roadmap to guide the establishment of an efficient and well-integrated education system that capitalizes on the strengths of the public and private education sectors (see Box 3 for details).

f. Re-balancing of the allocation of the budget for education subsidies between public and private school students to minimize unfair marginalization of private schools that provide better quality and more cost-effective education than comparable public schools

g. Issuance of policy against promoting students to the next grade level without achieving minimum proficiency standards and eliminating unnecessary pressures on public school teachers to promote them to the next grade level.

*Box 5 . List of Proposals for the Next Administration's
Development Agenda for Education*

h. Instituting more and better remediation programs for lagging students – teaching students at the right level

i. Increasing internet connectivity of schools and use of technology-based innovations to cost-effectively improve education, skills formation, and labor productivity (see Annex B for specific ideas). Because internet connectivity at home is limited, priority should be given to supporting the development and adoption of innovations that improve the quality of teacher-learning interaction. To this point, government should consider lower cost interventions such as use of cell phones since they have almost universal penetration ratios. This can be more effective in improving teacher-student interactions with or without face-to-face learning.

4. Making public school and responsible education authorities more accountable for student learning through greater transparency of school performance, helping students/parents to recognize good/bad schools, and then encouraging them to speak out on the need for better schools.

5. Support the establishment of EdCom 2 to review the performance of the National Education System, including public and private sectors, and how to improve it comprehensively and independently in light of the FIRE, Constitution's provisions on education development, and lessons from local and international education experiences.

*6. For other measures, read PIDS discussion paper by Orbeta and Paqueo (forthcoming), *Philippine Education: Situationer, Challenges and Ways Forward*.*

productivity. Philippine data and international experience indicate that higher worker productivity growth leads to expansion of jobs and higher compensation, contrary to claims that workers share little, if any, of the gains from productivity improvements. In fact, compensation per worker in the Philippines has risen more or less proportionately with GDP per worker (a measure of worker productivity).

Another key message is the need to be more circumspect on the use of legal mandates and regulations to compel employers to raise worker compensation and to protect labor against employers' abuses and exploitation.

There is no doubt that labor laws and regulations are helpful in protecting and promoting workers' wellbeing. But over-reliance on those tools to protect the jobs of incumbent employees can make it costly and difficult for companies to employ, train, re-deploy, and terminate workers. On this point, as documented by a comparative study of labor markets discussed in Section 3, compared to its regional peers and other competitors, the Philippines labor markets are more burdensome and less able to efficiently adjust to changes in business conditions opportunely. This situation put the Philippines at a disadvantage, especially in

the light of the emerging FIRE and the rise of AI-driven automation and other disruptive technologies and innovations.

Empirical analysis further indicates that reliance on labor market regulations has other serious limitations: it has had counter-productive effects in the Philippines.⁹ That is, they have been shown to have adverse impact on aggregate employment, average household income and prevalence of poverty. It is especially true for the women, young, inexperienced, and less educated. Those incidentally are people with low human capital.

Another limitation to the over-reliance on laws and mandates to protect formal sector employment is that they make it more difficult to move people from low productivity informal sector work to high productivity formal sector employment.

The paper, therefore, calls for a new strategy that combines:

1. Tempering the use of traditional employment protection legislation (EPL) as a tool for raising workers' wages and benefits, and protecting incumbent workers' job tenure and its benefits;
2. Promoting workers' productivity and employability by updating their skills and acquiring new competencies; and
3. Strengthening unemployment insurance.

An example of EPL tempering is to allow small- and medium-scale enterprises to hire workers at a fraction of the established minimum wage during times when the unemployment rate rises above a certain level. Another is to temporarily exempt newly established companies from employment regularization law for a few years to encourage entrepreneurs to test out innovative but risky ideas.

As old jobs are being destroyed or reconfigured and new jobs are being created with the unfolding of the FIRE, more frequent training for the dis-employed will be needed. On this point, there is need to build a network of good quality lifelong learning facilities and programs. The new Administration, organized labor, and employer associations should work together on helping workers transition from one job to another to minimize structural unemployment and job insecurity. Failure to address this issue now might later become an impediment preventing the labor market adaptations needed by the country to be able to take advantage of the economic opportunities of the FIRE. See Box 6 for a list of options on ways to improve workers' skill set and ability to move to new or better jobs.

Box 6 . Options for Improving Workers' Skill Set and Ability to Get New or Better Jobs

1. Expansion of Enterprise-Based Training from about 3% to 15 % percent share of training outputs
2. Revision of Apprenticeship, Job Start Law, and other regulations relating to on-the-job and enterprise-based training
3. Expansion of the use of vouchers to support enterprise-based training and improve access to lifelong programs for skills upgrading and acquisition of new competencies.
4. Increase TESDA funds for enterprise-based training
5. Improving unemployment insurance by including: (i) adequate temporary financial assistance for training during episodes of unemployment and (ii) getting agreement on a fair and realistic sharing of insurance premium among workers, employers and government.

See discussion of above options in Section 3

Box 7 . A Social Contract for the Modernization of the Labor Code of the Philippines

1. Establish a "Social Contract To Reform Labor Laws, Regulations and Policies to Promote Gainful Jobs and Protect Workers' Income" to be agreed upon by labor, employers and government
2. Establish a systematic review of the Labor Code of the Philippines (LCP) by a Commission for the Modernization of the LCP
3. The task of the Commission would be to analyze and recommend revisions of the LCP to enable both workers and employers to efficiently adjust to technological and market changes and equitably gain from economic opportunities created by the FIRE as well as the job disruptions arising from it.
4. For credibility, the Commission should be composed of respected and independent-minded persons who have expertise in labor laws, labor economics, business management, labor relations and politics
5. The Commission's report would be used to formulate mentioned Social Contract

The first item in Box 6 will align the Philippines with the practice of its regional and aspirational peers in regard the use of enterprise-based training. Such training ranks high in terms of effectiveness and relevance of competencies learned. Achieving this objective will require a combination of more government funding of enterprise-based training and reform of policies and laws that make training costly, complicated, and restrictive (for example, Job Start and Apprenticeship Laws and related regulations).

The paper concludes with the following thought: One of the findings reported in Section 2 is the observed strong positive correlation between physical capital per worker and compensation per worker. One way of looking at this statistical

relationship is that a good investment environment is beneficial not only to capitalists but also to labor. This thought should encourage organized workers, employers and government to sit down together and look for a package of measures whose impact taken together will be beneficial to all stakeholders.

Several possible measures are listed here to illustrate and start the process of give and take among government, workers, and employers. This list is not exhaustive. Its purpose is to not limit the options to the list; rather, it is to begin to stimulate more sharing and development of ideas on ways to configure a social contract that can result in a win-win-win for the three stakeholders.

¹ Vicente B. Paqueo is a retired Professor of the University of the Philippines School of Economics and former World Bank Lead Economist. Michael R.M. Abrigo is a Research Fellow of the Philippine Institute for Development Studies. We are grateful to Dr. Aniceto C. Orbeta for his valuable comments and to Dr. Marito Garcia for generously sharing with us his international experience and knowledge of innovations in technology, education, skills formation and labor productivity. His contributions are reflected in Annex B. Disclaimers: the views expressed in this paper do not necessarily reflect the opinions of the institutions the authors are affiliated with. Any errors and inaccuracies found herein are the sole responsibility of the authors.

² See Paqueo, Lanzona and Orbeta (2017) and Lanzona (2014).

³ Much of this section comes from Paqueo, Orbeta, King and Melad (2021).

⁴ See Orbeta and Paqueo (forthcoming)

⁵ Bautista, Paqueo, and Orbeta (2021, p.10))

⁶ Abrigo (2021) provides references on the debate regarding increases in education expenditures and their impact on school quality and student learning.

⁷ Paqueo and Orbeta (forthcoming) shows empirically that most private schools participating in DepEd's vouchers and educational service contract (ESC) programs educate their students at a significantly lower cost per student than what the government would have had to spend, if instead the average public schools were to educate them. Incidentally, to be able to participate in mentioned programs, participating private schools must meet at least the same quality standards set for public schools.

⁸ Paqueo and Orbeta (forthcoming)

⁹ In the US and developed countries, empirical findings show that raising the legal minimum wage has a slightly positive impact on employment. This finding, however, has little, if any, external validity in the Philippines due vast differences in labor market conditions.

¹⁰ The authors are grateful to Dr. Marito Garcia for this annex.

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ANNEX

Public and Private Education Expenditures*Annex A***Annex A1. Public and Private Education Spending (% of GDP):
Philippines vs Aspirational Peers**

Country	Year	GDP per Capita	2017PPP\$ Per Capita Education Spending			Education Spending Total (% GDP)
			Private	Public	Total	
Singapore	2013	85,733	940	3,347	4,287	5.0
South Korea	2016	39,815	1,209	1,306	2,515	6.3
Malaysia	2009	19,443	219	809	1,028	5.3
Thailand	2013	15,767	122	826	948	6.0
Indonesia	2012	9,080	189	293	482	5.3
Philippines	2015	7,300	201	129	330	4.5

*Source: GDP per capita are from World Bank (2022) World Development Indicators (<http://wdi.worldbank.org/>).
Per capita education spending estimates are calculated using data from National Transfer Accounts (<http://www.ntaccounts.org/>)*

**Annex A2. Government Education Expenditures as Percentage of GDP:
Philippines vs International Comparators**

Country/Region/Income Group	Government Education Expenditures (% GDP)	Year
Vietnam	5.7	2013
South Korea	5.3	2015
Malaysia	4.7	2017
Thailand	4.1	2013
Indonesia	3.6	2015
Lower Middle Income	4.6	2014
Middle Income	4.6	2014
East Asia & Pacific (excluding High Income)	3.7	2013
Philippines	2.6	2009
	2.8	2013
	2.6	2014
	2.9	2015
	3.5	2017
	3.3	2018

Source: Paqueo, Orbeta and King (2019); Author's calculations for the Philippines for years 2013, 2014, 2017, and 2018 using BESF, DBM

Technology in Education to Support Employment and Labor Productivity¹⁰

Annex B

The Covid-19 pandemic has changed the landscape in education when the world shifted to online learning with the use of education technology. Massive use of online learning especially in the tertiary education sector during the pandemic has allowed teaching and learning to be conducted online using the internet. And even in the post-pandemic era, it is likely that the world of education will transition into a new normal including blended learning (partly in-person and partly online).

But even prior to the pandemic, the world of education already began the shift to new modes of learning through the internet, with the proliferation of massive open online courses (MOOCs), and the use of online courses to either supplement the current teaching and learning, but also to use such asynchronous courses to be recognized as credit in universities, and colleges as now proven to work in Indonesia, Malaysia, and India. In Malaysia for example, students can take online courses and get credited up to 30% of the students graduating credit. This increases the portability and access to more learning resources, and thus, improvement in knowledge and skills than previous generations.

The new technology in education can provide many of the tools for the Philippines to move-up in many areas of learning, skilling, and re-skilling of the labor force. Some of the important technologies and key features are described in Box 1 below, along with insights on how these can be applied in the current and future context—both for students while in school and for workers as tools for life-long learning.

Box 1 . Ten Technology Developments for Education, Learning and Productivity

Technology for Productivity

MOOCs

Rapid skills development is now possible through Massive Open Online Courses (MOOCs) from the major global providers such as Coursera or EdX

- *Philippine talent can be rapidly scaled-up, at low-cost*
- *Philippine talent can take advantage of open and leading edge knowledge by studying online*
- *Coursera a leading MOOC platform with over 200 leading companies and universities to offer online learning and 92 million learners, 100+ Fortune 500 companies, and more than 6,000 campuses, businesses, and governments to access world-class learning—anytime, anywhere.*
- *Ed-X, Udacity, Udemy, Future-Learn are major online course suppliers – together provide over 150,000 courses*

Micro-credentials

The rapid change in technology requires new skills for the labor force. Micro-credentials represent the new skills which are less than a typical college degree, but which are types that the employers need. For example, specific skills in web design, machine learning, or artificial intelligence, can be acquired from online courses now available through the internet. Research shows that the top skills needed for entry-level jobs of the future are more accessible than commonly thought. These digital economy skills are attainable with hours, not years, of online learning. For example, pathways to become a data analyst in 64 hours will jump start the path of a career in data science

Benefits and Outlook for Philippine Learners and Labor

- *Leverage knowledge from major sources and leading universities worldwide*
- *Today, about 1.1 million Filipino learners already using Coursera*
- *New learning online will make Filipino talent globally competitive*
- *Enabling regulations such as recognition of MOOCs as academic credential will encourage mass use in the Philippines. This is done today in Malaysia, India and Indonesia and in EU countries*
- *There are 1,800 micro-credentials in specific fields now currently available at reasonable cost for Philippine talent*

Technology for Productivity

• **Building advanced skills and industry-valued**

micro-credentials. In a non-traditional higher education offering, Udacity, a platform based in the Silicon Valley, responded to the market demand for specialized high-demand and industry-value skills in IT and 4IR technologies. Udacity courses are co-designed with more than 200 of the largest tech companies mainly from the Silicon Valley and the US, such as Google and AT&T. Main course offerings are in data science and artificial intelligence, programming, self-driving cars and autonomous systems, digital marketing, robotics, and others.

- **Building towards recognition of micro-credentials.** In most countries, courses are typically not given credit units by tertiary education institutions that did not develop them on their own but integrated them into their own curricula to bridge curriculum gaps or to heighten the employability of their graduates. The credit given remains that of the university course. India, Indonesia, and Malaysia are among the first movers in the world, implementing reforms in their regulatory systems to integrate online courses and MOOCs into their overall academic curriculums. In Europe, there are efforts to standardize the online courses for award of academic credit units.

Scale-up FIRE Technologies

The 4th Industrial Revolution (FIRE) technologies using artificial intelligence, machine learning, blockchain, internet of things, augmented reality and virtual reality, additive manufacturing, cloud computing, cybersecurity, robotics, new materials, are key technologies that need to be promoted in universities/colleges in the country.

- Offering FIRE courses in colleges and universities
- Use MOOCs and online learning to rapidly access knowledge of the FIRE technologies

The Metaverse

The advent of the augmented reality (AR), virtual reality (VR) and mixed reality (MR) has now reached a new stage for effective use in learning and in training of workers.

The use cases for AR/VR/MR include:

- **Training.** In its trials, the VR training for Walmart's retail employees was shown to reduce training time from 8 hours to 15 minutes without sacrificing effectiveness. Verizon, a mobile company, implemented virtual reality training for call center representatives to de-escalate irate customer calls.
- **In health care,** a study to determine the value of VR in educating hospital frontline staff. Using VR rather than traditional training results in significant improvements, with VR participants found to have an adequate understanding of infection control measures.
- **More and more architects** are designing spaces in virtual worlds. It may be possible to redesign a space which is currently a slum with the help of architects and gamers collaborating in a metaverse

Benefits and Outlook for Philippine Learners and Labor

- *Over the coming decade, newly created jobs will be in wholly new occupations, or existing occupations undergoing significant transformations in terms of their content and skills requirements*
- *There is a need to recognize the micro-credentials awarded by local and global online learning platforms within the Philippines Qualifications Framework and provide a mechanism for the grant of creditable units to these micro-credentials in the Philippines Credit Transfer System. Recognize these micro-credentials under the continuing professional development program by awarding Professional Regulatory Commission accreditation as appropriate*

- *The Philippines is one of the world's sources of outsourced online work. To be competitive, the new FIRE technologies should be offered both in colleges and in online platforms.*
- *A study by the ILO (2016) concluded that 49% of the jobs in the Philippines can be automated. An AIM study in 2019 indicates that overall jobs in the Philippines are found to have a 67% probability of being automated.*
- *These imply that the market for re-skilling, upskilling and lifelong learning, globally and locally, will become very huge and the training and education system need to prepare sooner than later.*

- *PricewaterhouseCoopers (PWC) estimates that extended reality (XR) will boost the global economy by USD 1.5 trillion by 2030, primarily through increased productivity due to new and improved ways of working and learning.*
- *The Metaverse will represent spaces of engagement, connection, sharing, and collaboration. Virtual reality spaces will represent a substantial economic opportunity for jobs, real estate, businesses, education, healthcare, and relationships.*
- *Upskilling Philippines labor to the metaverse will improve competitiveness in the world market especially outsourced jobs.*

Technology for Productivity

IT-BPM SKOOL (Skills & Knowledge Optimization through Online Learning)

The IT and Business Process Association of the Philippines (IBPAP) created its own online learning platform called IT-BPM SKOOL to propel digital upskilling and reskilling for the industry by providing access to industry-relevant courses and industry-recognized certification. An important feature is that it offers training in 10 jobs that were identified as having the greatest number of job openings, have had steady growth over the past four years, and require skills that can be learned online. These 10 jobs, which all require digital skills in varying degrees, are:

1. Software Developer
2. IT Administrator
3. Data Analyst
4. Sales Representative
5. Project Manager
6. Customer Service Specialist
7. Digital Marketer
8. IT Support/Helpdesk
9. Financial Analyst
10. Graphic Designer

Future offerings would need to include FIRE technologies to provide higher value-added business process services that would enable the Filipino talent to be competitive in the outsourcing market.

TESDA Online Program: Technical Education for Global Competitiveness and Work Readiness

The Technical Education and Skills Development Authority, through its TESDA Online Program (TOP) provides online learning courses for TVET students to build skills in hospitality, electrical and electronic, IT, entrepreneurship, agriculture processing, human health, and health care, maritime, social and community development, automotive. Their programs benefit from their collaboration with the private sector which includes educational technology providers (Intel, Microsoft, Google, Udacity, and Udemy), mobile operators (Smart) and Coca-Cola, Inc. Among these training programs are a number involving digital skills, namely:

- 2D & 3D animation*
- Visual Graphic Design
- Game Art Development
- Web Development (using HTML5 and CSS3) *
- Game Programming
- Programming (.Net Technology)
- Programming (Java)
- Programming (Oracle Database)
- Medical Transcription
- Medical Coding and Claims Processing
- Microsoft Online Courses (Game Development, Software Development Fundamentals C# Fundamentals for Beginners)**

Those with asterisks are also offered online.

Benefits and Outlook for Philippine Learners and Labor

- The World Economic Forum forecasts that over the coming decade, a non-negligible share of newly created jobs will be in wholly new occupations, or existing occupations undergoing significant transformations in terms of their content and skills requirements.
- The IT and BPO sector in the Philippines will be hit hard by the rise of automation, especially machine learning and artificial intelligence which will replace contact centers in a major way.
- All the above mean that the market for re-skilling, upskilling and lifelong learning, globally and locally, will become very huge quickly. The reskilling of BPO sector employees to higher value skills is imperative.

- An independent evaluation of the programs showed high completion rates with 92 percent and 95 percent of users report that the TOP courses helped them improve skills and secure jobs. The study also found high pass rates among students who took the certification tests held at TESDA's assessment centers.
- TESDA Online would need to be supported and expanded to cover new technologies especially FIRE technologies.

Technology for Productivity

Powering Career Pathways and Skills Gap Analysis with Big Data Using Data Science and Artificial Intelligence

One of the challenges that industries face today is finding the right person for the job. So far, the solutions that are available still involves reviewing stacks of resumes and interviewing a line-up of potential candidates. Career guidance and profiling platforms like JobKred from Singapore, provide AI-enabled solutions to identify skills gaps and match candidates' skills to employer needs. This uses big data analytics. JobKred's platform provides real-time big data from jobsites and predictive guidance on the candidate's skills gaps in relation to skills demand of the job market using data mining from job boards, social media, resumes, government statistics. The skills assessment provides actionable data and recommends online learning courses to build job-relevant skills. Several Singapore universities and government programs have successfully applied this program, e.g., Nanyang Technical University, National University of Singapore, and Singapore Management University and government programs like Workforce Singapore, and in several countries in Asia.

Digital Credentials for Transitions from School to Work

The new systems using digital learning passports like the Europass in the European Union is a pathway that will help students to transition to the world of work. These digitized record of individual credentials from school including micro-credentials will be a mechanism that would be trusted by employers and the government as it embeds verified attestation of one's learning credentials, and which are verified by accredited and verified issuers of credentials. The example of this learning passport -- the Europass Digital Credential -- documents a person's credentials such as classes attended, projects completed, skills developed, professional titles, and qualifications in a digital file. These are issued by an educational institution where the learning took place. The Europass is signed with an e-Seal signifying a legal presumption of authenticity across Europe. It enables instant and automatic verification by the recipient of the information encoded into it. It can decrease incidences of credential-fraud. This system will enable a smooth and transparent system for students to transition to the world of work.

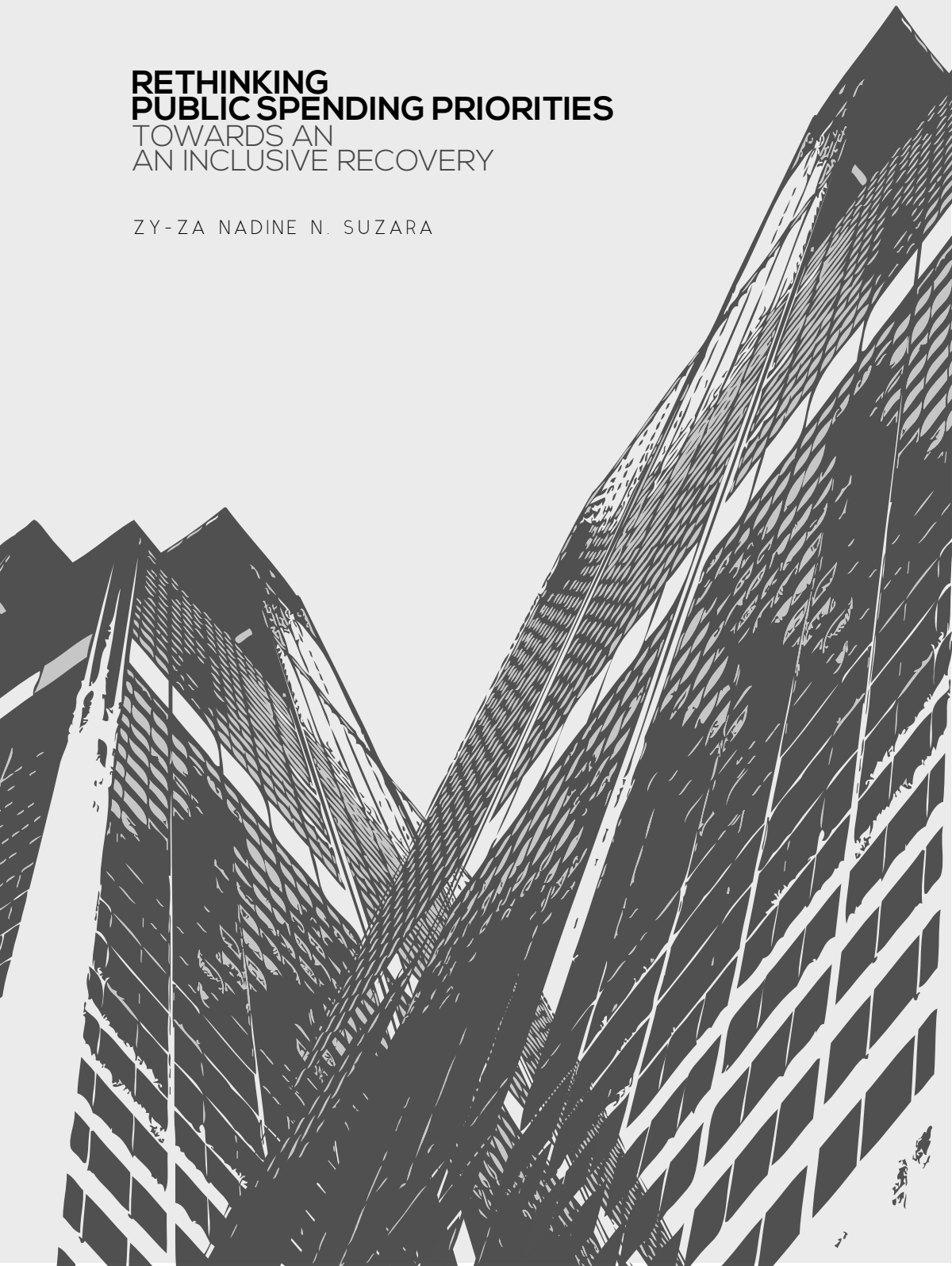
Significantly, such a system is now being used in some institutions and in some countries such as Indonesia, through its Indonesia Cyber Education Institute (ICE) where online courses are obtained and become credited and registered on a blockchain.

Benefits and Outlook for Philippine Learners and Labor

- Student career guidance will become more important with the proliferation of new types of jobs and new types of skills of the future.
- Thus, a new modernized system for career guidance for students would be an essential platform to empower them with granular knowledge of their skills gaps vis a vis their targeted jobs.
- The new learning passport which is digitized into a learning wallet can modernize the transition of students from school to work. With this system, more opportunities for expanding the scope of job search and job placement will allow for better employment options.
- Examples from other countries like Europe and Indonesia can inform the future designs in the Philippines.

**RETHINKING
PUBLIC SPENDING PRIORITIES**
TOWARDS AN
AN INCLUSIVE RECOVERY

ZY-ZA NADINE N. SUZARA



RETHINKING PUBLIC SPENDING PRIORITIES TOWARDS AN INCLUSIVE RECOVERY

ZY-ZA NADINE N. SUZARA

The COVID-19 pandemic has wreaked havoc on the global economy. Governments around the world have launched massive fiscal support on an unprecedented scale and mass vaccination is now underway across the globe. Despite these developments, recovery from the coronavirus pandemic seems uncertain in some countries given the resource and capacity challenges posed by the pandemic on states. These constraints are further exacerbated by new coronavirus variants, such as those which emerged over the past year.

In the Philippines, COVID-19 plunged the economy into its worst recession since World War II. Gross domestic product contracted by 16.9% in the second quarter of 2020. At the height of the lockdown, 65.9% of firms temporarily closed down, while 1.1% permanently shut down — among the highest numbers in the Southeast Asian region, according to a study conducted by the Asian Development Bank (2020). In April 2020, unemployment reached as high as 17.7%, while underemployment was at 18.9%.

These numbers have slightly improved since the lifting of strict quarantine restrictions. Gross domestic product recovered from -16.9% at the height of the pandemic to 12%. This growth rate, however, masks the fact that the high growth rates in the first two quarters of 2021 are still nowhere near pre-pandemic levels. Furthermore, as of September this year, the unemployment rate was estimated to be at 8.9%. According to the PSA (2021), as many as 4.25 million Filipinos

are unemployed, and labor force participation dropped in the same period as compared to the previous month.

Meanwhile, the country's public health system has been overwhelmed. The country contends with one of the worst outbreaks in Southeast Asia due to an inadequate public health system even before the pandemic, and lack of organizational preparedness at the onset of the pandemic. Because of this, the Philippines is considered as one of the worst places to be amidst the global public health crisis. The most recent COVID resilience ranking conducted by Bloomberg (2021) showed that among the 53 countries surveyed, the Philippines ranked at the bottom.

The IMF and credit rating agencies warned that the pandemic has left deep scars in the Philippine economy. Moody's said that the crisis "will lower income levels, exacerbate inequality and increase poverty," (BusinessWorld, 2021). Recovery will only happen if the government provides a well-targeted fiscal stimulus that will support viable companies as well as households and individuals suffering from the crisis. Worse than this, the Philippines continues to lag behind other countries in terms of resilience and therefore, the country's prospects towards economic recovery.

Economists have been pointing out that fiscal policy is the key to recovery. Governments must continue to provide economic aid and stimulus to cushion the domestic economy from the impact of the pandemic. The current administration rolled out massive aid through Bayanihan 1, but since then, it has been scrimping on aid. Over the past year, the proposed Bayanihan 3 bill was not passed. This bill was designed by proponent legislators as an aid and stimulus package to tide over individuals and households.

Furthermore, the current designs of the 2021 General Appropriations Act and the 2022 National Expenditure Program have not sufficiently prioritized spending towards public health and fiscal support. There is a need to rethink the current administration's fiscal policy to ensure an inclusive and sustainable economic recovery. Such policy should be concretely reflected in the way that the 2022 national budget and the succeeding budgets of the next administration are designed.

This paper seeks to provide an overview of the fiscal response of the Duterte administration in addressing the COVID-19 pandemic. Specifically, it will provide a discussion of the COVID-19 funds authorized and released under the

two Bayanihan laws legislated by Congress. It will also give an overview of the 2022 National Expenditure Program and offer a critique of the budget priorities encapsulated in it.

Finally, the paper will end by providing recommendations on how the national budget can be used to support a more inclusive economic recovery. The paper proposes ways by which this can be done:

1. Rethink and recast the current set of budget priorities towards one that will boost health systems and promote inclusive economic recovery.
2. Implement structural reforms that would increase the capacity of government agencies to respond to the crisis.
3. Introduce open and participatory mechanisms to ensure transparency and accountability in procurement and use of COVID-19 funds.

Can Fiscal Discipline Save Us?

President Duterte's economic managers insist that in the middle of the country's worst economic crisis fiscal discipline will save us. During the Development Budget Coordinating Committee's 2022 national budget presentation to the Senate Committee on Finance, Finance Secretary Carlos Dominguez III claimed that with fiscal discipline and economic reforms the Philippine government is fully prepared to meet the global health crisis head on.

This essentially means austerity: the government must be prudent with its spending to ensure that the country's debt-to-GDP will not balloon in the coming days. However, such thinking according to economist JC Punongbayan, is misplaced (2020). The economic managers fear that spending on economic aid will affect the country's credit ratings. Although Bayanihan 1 and 2 were passed to provide support to different sectors of society, these have been disproportionately small compared to the real GDP losses amounting to over a trillion pesos incurred in 2020 alone.

Furthermore, among Southeast Asian countries, the Philippines suffered the worst economic slump but launched one of the smallest fiscal packages in

the region. Last year, the International Monetary Fund noted that Singapore's fiscal responses was equivalent to 18% of GDP followed by Thailand with 9.6%, Malaysia with 4.9%, Indonesia with 3.8% and Vietnam with 3.6%. Meanwhile, the Philippine government's fiscal response was equivalent to only 3.1% of GDP and mainly constitutes pandemic response and assistance programs authorized under Bayanihan 1 and Bayanihan 2 (Suzara, Abad, Punongbayan, & Sanders, 2021).

Status and Analysis of the COVID-19 Funds

The Bayanihan to Heal as One Act (RA11469) and the Bayanihan to Recover as One Act (RA11494) were the two main fiscal policy responses of the Duterte government. These two laws are not supplemental appropriations over and on top of the two 2019 and 2020 General Appropriations Acts which were both valid in 2020. The two Bayanihan laws passed by Congress only authorized the Executive branch to realign and reallocate funds for the COVID-19 response.

Upon the expiration of Bayanihan 2 in the middle of the current fiscal year, the Department of Budget and Management reported that it released a total of PhP 608.5 billion pesos to different government agencies of their respective COVID-19 response programs. DBM reports show that under Bayanihan 1,¹ PhP 394.4 billion pesos was released. On the other hand, under Bayanihan 2, PhP 214.2 billion was released.

These COVID-19 funds were not fully utilized by the different agencies. A total of PhP 34.2 billion pesos remained unutilized of the PhP 608.5 billion total fund release, while PhP 33.2 billion worth of obligations were left unpaid. The reports also showed that the unutilized funds included those authorized in both Bayanihan laws. Under Bayanihan 1, PhP 20.3 billion was unutilized, while PhP 11.8 billion obligations were left unpaid. Similarly, under Bayanihan 2, PhP 13.8 billion was unutilized, while PhP 21.4 billion obligations were left unpaid upon the expiration of the Bayanihan to Recover as One Act.

The utilization of the COVID-19 funds is not only marked with poor absorptive capacity and slow spending in the middle of the crisis. These funds have also been the subject of the Commission on Audit's audit reports for fiscal year 2020, particularly funds which were provided to the DOH to boost the country's pandemic response.

The Commission on Audit flagged the DOH over the PhP 67.3 billion fund due to mismanagement and underutilization citing the following observations:

- a. Unobligated funds amounting to PhP 31 Billion in December 2020
- b. PhP 42.4 billion worth of funds transferred to the Procurement Service without proper documentation
- c. Procedural lapses in the procurement
- d. Lack of supporting documents for various transactions made by DOH units
- e. Lack of sufficient legal basis for the disbursement of certain funds

The PhP 42.4 billion funds of the DOH transferred to the Procurement Service has been the subject of investigations by the Senate Blue Ribbon Committee (Gonzales, 2021). Following initial investigations, allegations of overpricing and corruption have surfaced with respect to the procurement of medical supplies and equipment which were declared as common-use supplies by the Government Procurement Policy Board.

Aside from chronic underspending and misuse of funds, there is generally a lack of transparency in the utilization of the COVID-19 funds. Lack of transparency has been raised not only by civil society organizations but also by the COA. In its audit report on the funds transferred by the DOH to the Procurement Service, the COA pointed out the following:

“ PS failed to submit in a timely manner copies of contracts and purchase orders for COVID-related funds to the resident auditor. Some were not even submitted at all. Out of PhP 112 COVID-related contracts/purchase orders, 80 contracts/purchase orders were received by the resident auditor beyond the five-working day deadline mandated under COA Circular NO. 2009-001. 32 contract/purchase orders with a total amount of PhP 8.9 billion were also not submitted by the PS to the resident auditor. PS did not post copies of the contracts/purchase orders awarded under the Bayanihan Acts in the GPPB online portal.”

Furthermore, there is also no systematic reporting of COVID-19 funds beyond the reports of the DBM which only show aggregate amounts of funds by department. Comprehensive and publicly available reports that would show the breakdown of COVID-19 funds of each specific department or agency, along with the respective targets and actual accomplishments do not exist despite the reporting requirement mandated by Congress under the two Bayanihan laws.

Misplaced Budget Priorities

On 23 August 2021, the Executive branch submitted to Congress the 2022 National Expenditure Program (DBM, 2021). The total proposed budget for fiscal year 2022 is PhP 5 trillion. Based on the Budget of Expenditures and Sources of Financing (BESF), the medium-term fiscal program indicates that the target total expenditures is PhP 4.9 trillion. The expenditures encapsulated in the 2022 proposed national budget will be financed by revenues which is projected to reach 3.3 trillion pesos, while the deficit of PhP 1.9 trillion will be financed from foreign and domestic borrowings.

Total government expenditures are projected to reach 22.4% of GDP. Revenues are projected to be at 14.9%, while the deficit is projected to be at 7.5%. The projected deficit for fiscal year 2022 is lower than the projected deficit of 9.3% this fiscal year.

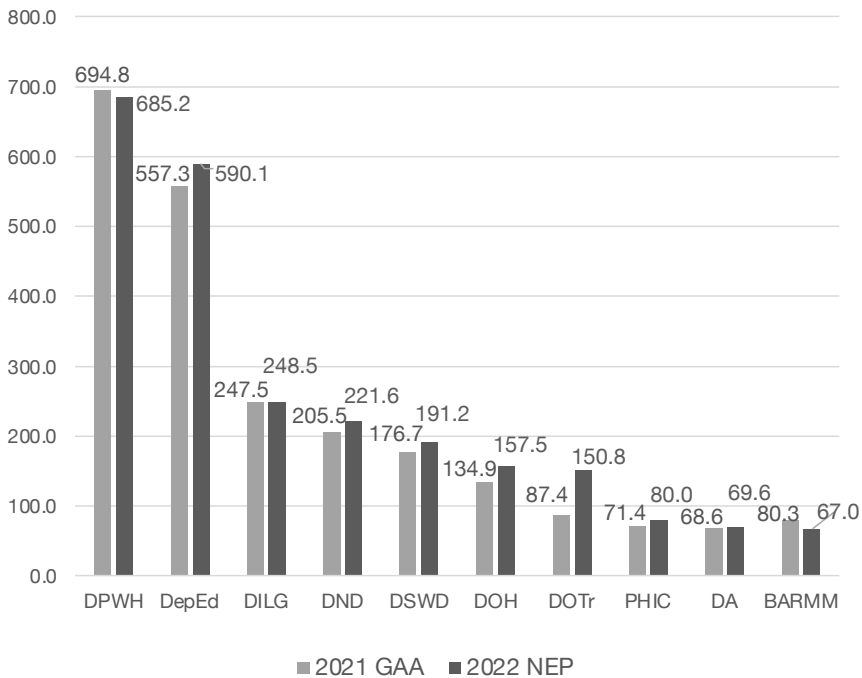
Compared to the current year's budget, the 2022 proposed national budget is about PhP 500 billion or 11% higher than the PhP 4.5 trillion 2021 national budget. The projected total expenditures of PhP 4.9 trillion is also higher than the projected total expenditures for this year which is only at PhP 4.6 trillion.

By sector, the highest allocation will go to social services. PhP 1.9 trillion or 38.3% of the national budget is allocated for various social services programs. The huge allocation for social services is partly due to the constitutional mandate to provide the highest level of funding for education. Next to social services, economic services comprise the second largest allocation at PhP 1.5 trillion. This is equivalent to 29.3% of the proposed national budget. General public services have been allocated with PhP 862.7 billion (17.2%), followed by debt burden with an allocation of PhP 541.3 billion (10.8%) and defense at PhP 224.4 billion (4.5%).

By recipient units, national government agencies continue to be the highest recipients of funding with total allocations amounting to PhP 3.2 trillion or 63.5% of the total fiscal space. This is then followed by Local Government Units with PhP 1.1 trillion or 22.2% of the total fiscal space. Creditors will receive PhP 541.3 billion, while GOCCs will receive total subsidies amounting to PhP 178 billion. These allocations for creditors and GOCCs are equivalent to 10% and 3.5% of the total fiscal space, respectively.

The Department of Budget and Management typically presents education as the highest recipient of funding as compared to other departments. The sectoral budget for education includes budgets for the DepEd, SUCs, CHED and TESDA. A strict comparison of funding levels by department would however show that the budget of the DPWH under the current administration often exceeds the budget for the Department of Education.

Figure 1 . Top 10 Budget Recipients: 2021 GAA vs. 2022 NEP



Source: Department of Budget and Management

Despite the pandemic, the DPWH continues to emerge as the top recipient department while the DOH along with other critical frontline agencies which are supposed to provide economic aid and fiscal stimulus trail behind the DILG and the DND.

The pandemic has left behind long-lasting scars in the Philippine economy and society as can be seen in the worst economic recession the country has ever faced and record-high economic misery. Moody's warned that these "deep scars will compound underlying challenges related to fiscal consolidation and the reversal of debt accumulation. It will lower income levels, exacerbate inequality, and increase poverty." As such, their recommendation is for the government to come up with a "well-targeted fiscal stimulus that supports viable companies and employment which is more likely to allow recipient economies to emerge from the pandemic without significant economic scarring."

There is clearly a need to address the public health crisis first by managing the pandemic better before the economy can ever be on its way to recovery. The Institute for Leadership, Empowerment and Democracy's analysis of the national budget shows that such a recovery strategy is not reflected in the priorities of the 2022 proposed national budget.

Five key observations can be made regarding the 2022 National Expenditure Plan. First, infrastructure development continues to dominate the fiscal space even if Build, Build, Build might not be the most effective strategy for health and economic recovery considering slow disbursement performance of the program. Second, the 2022 NEP does not adequately support a more robust pandemic response. Third, the 2022 NEP is still not designed to support the welfare of ordinary Filipinos and the survival of small businesses in the midst of the global crisis. Fourth, the 2022 NEP is riddled with expenditure items that do not directly respond to the crisis and these continue to eat up the already limited fiscal space.

Infrastructure Continues to Dominate

Infrastructure spending remains the highest budget priority as Duterte's economic managers claim that Build, Build, Build will be the vehicle towards economic recovery. This strategy concretely finds expression in the Executive-

proposed version of the 2022 proposed budget in which a significant amount of funds has been poured into the budgets of the DPWH and the DOTr, the two main infrastructure departments of the government.

For fiscal year 2022 – an election year in the Philippines - the proposed budget of the DPWH is PhP 685.2 billion and PhP 150.7 billion is allocated to the DOTr. While the proposed DPWH budget slightly decreased by 1.38% compared to its current budget level, the DPWH remains the top recipient department in the 2022 NEP. Meanwhile, compared to its current year's budget level, the DOTr proposed budget for next year is 72.3% higher. This is due to the major increases in the department's railway programs.

Although the economic managers have repeatedly claimed that Build, Build, Build will be the vehicle towards economic recovery, this claim is not supported by hard data. In fact, obligation and disbursement reports published by the DBM show that the disbursement rates of both the DPWH and DOTr have slowed down since 2017. Infrastructure spending involves capital expenditures which take years to accomplish and therefore disburse. Thus, disbursements from infrastructure projects will only be able to significantly contribute to government spending 2-3 years on average for road projects and an even longer period of time for more complicated transportation projects.

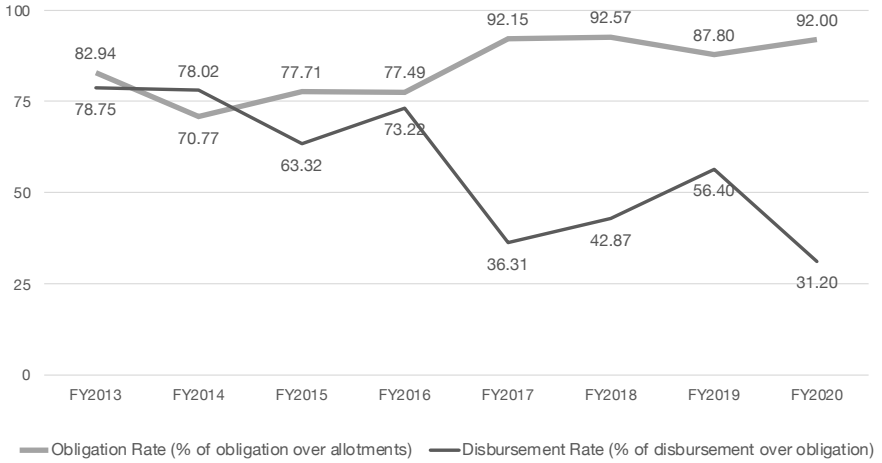
iLEAD's analysis of the obligation and disbursement rates of both the DPWH and DOTr show that even if obligations rates have significantly improved, disbursement rates worsened as shown in Figures 2 and 3.

Similarly, the DOTr spending performance has likewise worsened since 2017 as shown in the figures.

In the first half of the Duterte administration, the Commission on Audit (2017, p. 1) already pointed out that because of slow spending, *“the attainment of the expected benefits from these [DOTr] projects were delayed”* and the *“timely delivery of its [DOTr's] mandated services, particularly the improvement of road safety by expanding safe, affordable and accessible public transport, was not achieved.”*

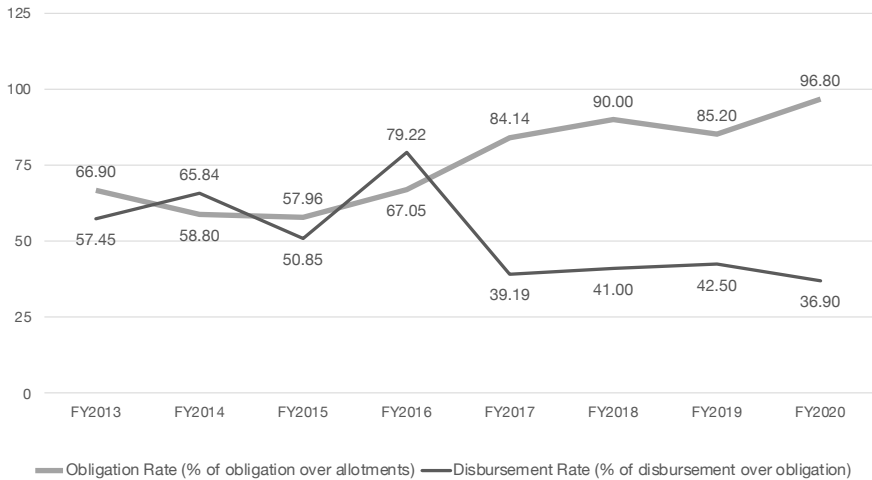
The remarks of the Commission on Audit (2018, p. 34) on the performance of the DPWH is also no different. Despite improvements in obligation rates, the 2017 COA audit report commented that the DPWH *“deprived the intended beneficiaries of the immediate access to safe and reliable road network systems, school buildings, health facilities and reduced vulnerability to flooding”* due to the delays and non-implementation of projects.

Figure 2 . DPWH Spending Performance
(FY2015-2020)



Source: Department of Budget Management, Status of Allotments, Obligations and Balances, 2013-2020

Figure 3 . DOTr Spending Performance
(FY2013-2020)



Source: Department of Budget Management, Status of Allotments, Obligations and Balances, 2013-2020

The economic managers continue to claim that Build, Build, Build has high multiplier effects. But there is no technical study published by the government to support this claim. There is also currently no official data showing the measurable impacts of Build, Build, Build, such as the number of jobs created by infrastructure spending particularly during the pandemic. Nevertheless, given the slow and low disbursement performances of the DPWH and the DOTr, it is unlikely that the impact of BBB will be immediately felt.

Apart from the chronic underspending of the two main infrastructure agencies, the infrastructure program is also riddled with patronage-driven projects such as those which have traditionally been lodged in the Local Program of the DPWH. In the 2022 proposed budget, funds for the Local Program of the DPWH were slashed, but this is hardly the end of “pork”. It is quite noticeable that as the Local Program decreased, an avalanche of funds can be seen in the Convergence Program of the DPWH. The said program increased by a whopping 232% in the 2022 proposed budget.

It appears that the project categories originally included under the Local Program of the DPWH were simply rebranded for the 2022 Elections. These project categories are now called “Sustainable Infrastructure Projects Alleviating Gaps” (SIPAG) and “Basic Infrastructure Program” (BIP).

Inadequate Funding for Solving the Public Health Crisis

Economists have been pointing out that there is a need to address the public health crisis first before the country can even recover economically. However, as in the 2021 national budget, the 2022 proposed budget still does not adequately support a more robust and effective pandemic response.

Although the DOH budget increased by PhP 22.2 billion or 16.8%, the increase largely went to the Health Facilities Enhancement Program and Human Resources for Health. Nonetheless, the funds for vaccines are again parked under the Unprogrammed Appropriations. PhP 45.4 billion for the procurement of vaccines will again be financed by loans despite projected revenues amounting to PhP 3.3 trillion.

There is also no allocation for contract tracing either in the budgets of the DOH or the DILG where it was previously lodged. There is no allocation for the

special risk allowances of healthcare workers and budgets to expand COVID-19 testing. The allocation included in the DOH budget for COVID-19 testing is limited to the procurement of testing kits, not the creation of new laboratories that will enable massive testing. Despite COVID-19 now ranking as the 5th cause of death in the Philippines, budgets for epidemiology and surveillance have been slashed from PhP 158.6 million this year to only PhP 113 million in the 2022 NEP.

The Senate attempted to correct these inadequacies. Additional budgets were reallocated to the DOH to fund the payment of benefits and compensation of healthcare workers, epidemiology and surveillance, hiring of vaccinators, assistance to indigent patients and cancer patients. The Senate also increased the proposed subsidies to government specialty hospitals whose budgets have likewise been slashed even in the middle of the pandemic (Senate of the Philippines, 2021).

Scrimping on Aid

Economic misery has been at an all-time high since last year. Civil society organizations and economists alike have been calling for “*ayuda*” and stimulus to tide over poor Filipinos and small businesses from the socioeconomic impact of the pandemic. However, the economic managers continue to scrimp on aid, making the Philippines one of the countries in Southeast Asia with the least amount of fiscal stimulus provided to citizens. Worse, Bayanihan 3 remains unlegislated due to the absence of a certificate of availability of funds from the Department of Finance.

In the 2022 NEP, the DSWD budget increased by PhP 14 billion, but there is no cash transfer program similar to the direct cash subsidies provided to households during the lockdown period last year. This is despite the fact that people continue to experience hunger and loss of livelihood.

While the total budget of the DOLE increased from PhP 24.9 billion in the 2021 GAA to PhP 27 billion in the 2022 NEP, there is only a marginal increase in labor assistance programs despite the persistence of unemployment and underemployment. The 2022 proposed budget of the DepEd increased by PhP 32.8 billion. However, this budget remains inadequate to support distance

learning and ill-prepared for the resumption of face-to-face classes.

Despite business closures, there were several cuts in the budget of the DTI. Its total budget increased by PhP 964 million — most of which went to the Micro, Small and Medium Enterprises (MSME) development. However, the MSME development program is a regular program of the DTI which it has been implementing even before the pandemic. This budget item does not include the fiscal stimulus needed to support micro, small and medium enterprises. There is also currently no additional subsidy to the Small Business Corporation to provide greater assistance to struggling businesses.

Budget cuts or stagnation were also seen in the 2022 proposed budget of the DOT. Although its total budget increased by PhP 742 million, there appears to be no clear direction for the recovery of the tourism industry or a strategy to assist tourism workers who have been badly affected by the pandemic. Instead, the DOT budget included a PhP 1 billion increase for its branding campaign which will not likely deliver any significant impact in the immediate future given the continuous surge in COVID-19 cases.

Prevalence of Non-urgent Expenditure Items

While stagnation and budget cuts were generally observed in the budgets of key frontline departments, the 2022 NEP contains expenditure items that do not directly respond to the pandemic such as:

1. NTF-ELCAC (National Task Force to End Local Conflict Communist Armed Conflict) Barangay Development program with PhP 28.1 billion
2. Anti-communist insurgency funds in the PNP budget amounting to PhP 1 billion and other smaller projects for the same purpose in the DILG budget
3. Financial Assistance to Local Government Units with PhP13 billion
4. Confidential and Intelligence Funds of the Office of the President at PhP 4.5 billion

5. President's Contingent Fund at PhP 13 billion

In the context of the pandemic and forthcoming implementation of the Mandanas Ruling, these lump sums funds are prone to duplication, abuse and electioneering. The fiscal space carved out for the abovementioned expenditures could have been allocated instead to more urgent programs like vaccination, economic aid and fiscal stimulus which would help households and businesses stay afloat during this crisis.

As with the health budget, the changes proposed by the Senate on the Executive-proposed version includes significant cuts to the NTF-ELCAC funds, the President's Contingent Fund as well as other special purpose funds (i.e., Miscellaneous and Personnel Benefits Fund, Pension and Gratuity Fund).

Conclusion

The national budget is the financial language of economic policy and development. As such, it should reflect programs and projects that will promote inclusive recovery from the unprecedented socioeconomic crisis brought about by the COVID-19 pandemic. The limited fiscal space of the government must be maximized and allocated to support other sectors of society instead of a narrow focus on infrastructure development.

Although the Philippines faced the worst slump in terms of 2020 GDP losses among Southeast Asian countries, the economic managers have been fiscally conservative, launching one of the smallest fiscal packages in the region. This fiscal conservatism is compounded by erroneous budget prioritization, lack of transparency as well as underutilization and mismanagement of COVID-19 funds previously released for the pandemic response.

Moving forward, there is a need to recast the business-as-usual budget priorities reflected in the Executive-proposed 2022 National Expenditure Program. These budget priorities are no different from the set of priorities encapsulated in the 2021 General Appropriations Act. For one, the proposed National Budget lacks a clear-cut pandemic recovery strategy. The budget for infrastructure is heavily prioritized on top of programs that would directly address the public health and socioeconomic crisis the country faces.

In the Executive-proposed version of the 2022 budget, for instance, funding

for vaccines falls under the Unprogrammed Appropriations, a standby fund which can only be triggered if there are excess or new revenue collections or loans. The 2022 proposed budget also failed to include allocation for contact tracing either in the budget of the DILG or the DOH, additional budgets to establish new laboratories that would allow for massive testing, and allocations for special risk allowances of healthcare workers.

With respect to social protection, although the DOLE budget increased in the 2022 NEP, the allocation for labor assistance programs may not be sufficient in the midst of widespread unemployment and underemployment. For the DepEd, an increase in the proposed 2022 education budget by PhP 32.8 billion remains insufficient to support distance learning and the transition back to face to face classes. The budget of the DTI increased by PhP 964 million, which is again inadequate given the closure of many micro and small businesses. While the tourism industry is heavily impacted as the pandemic continues, there is still no clear direction for its recovery as the PhP 742 million budget increase did not account for the proper assistance of tourism workers.

The 2022 National Expenditure Programs also unfairly prioritizes expenditure items that do not directly tackle economic recovery, a clear indication that the budget is not being fully used as an instrument for recovery from the COVID-19 pandemic. Budget items like the NTF-ELCAC and Financial Support to Local Government Units are prone to duplication, abuse, and electioneering. These funds could have been allocated instead to vaccination, fiscal stimulus, and other urgent programs.

Civil society organizations have been calling for a budget that would provide support for poor Filipinos and small businesses and protect them from the adverse socioeconomic impacts brought about by the pandemic.

Recommendations

According to the IMF, fiscal stimulus should be gradually discontinued, and fiscal policy needs to be designed to buttress public health systems and support households and sectors of the economy that would stimulate recovery (Medas et al., 2020). The current administration, however, has not only scrimped on aid. It has also failed to design a pandemic-responsive and inclusive national

budget for two consecutive fiscal years. In the case of the Philippines, economic aid was abruptly discontinued with the expiration of the two Bayanihan laws. The 2022 national budget and the succeeding budgets will therefore need to be redesigned to support recovery. The recommendations below provide a few starting points:

Rethink and recast the current set of budget priorities towards one that will boost health systems and promote inclusive economic recovery

There is a need to rethink and recast the current set of budget priorities reflected in the 2022 National Expenditure Program discussed in previous sections of this paper. The call to recast the 2022 national budget has been made by various civil society organizations including the People's Budget Coalition co-convened by the Institute for Leadership, Empowerment and Democracy, Citizens' Budget Tracker and Makati Business Club.

There are more important expenditures that need to be funded than building more roads and bridges in the middle of an unprecedented global health crisis. Since the onset of the pandemic, the World Health Organization has recommended governments to reprioritize public spending towards bolstering the economy and the health system. Thus, spending should focus on strengthening the health system, supporting ordinary Filipinos towards a more inclusive economic recovery, while ensuring quality education for learners.

Fiscal policy is the key to recovery. The budget therefore must include the following multi-sectoral recommendations drawn from the consolidated proposal of the People's Budget Coalition:

1. Support for Filipino workers: the government must be prepared to support the working class by providing wage subsidies, job guarantees, retooling of skills and employment opportunities that will not only help them meet their basic needs but also help them face the new normal.
2. Social protection: alongside efforts to strengthen the healthcare system, the government must also provide ample economic aid especially because the pandemic poses uncertainties on recovery. In this way, families will be able to sustain their basic needs during anticipated lockdowns and be able to use this aid to stimulate alternative sources of livelihood.

3. Education: substantial investment in education is crucial to achieve sustainable development and better learning outcomes amid the COVID-19 pandemic. The pandemic has delivered massive consequences in education quality, in widening the gap of education of marginalized and disadvantaged sectors, and in exacerbating the financial resources of teachers, learners, and their families

4. Public transportation: providing safe, humane, and inclusive public transport is a key health and economic recovery measure. Investments should be made for strategic road-based public transport investment which could be a more effective use of our road program budget.

Apart from these budget priorities, the national government needs to support digital infrastructure and allocate funds for climate change adaptation and disaster resilience. As the pandemic continues to transform and accelerate digital infrastructure, the government must likewise take part in improving the country's telecommunications and internet connectivity. According to the World Bank, adopting digital technologies is crucial in recovering from the adverse impact of the COVID-19 pandemic (Llorito, 2020).

Implement structural reforms that would increase the capacity of government agencies to respond to the crisis as well as the capacity of local government to use their funds

There is a need to implement structural reforms that would increase the capacity of government agencies to utilize the funds that would be allocated to them. The COVID-19 crisis poses challenges in the way that government agencies perform their operations, but it also provides an opportunity to fast track the implementation of structural reforms to improve the capacity of government agencies. This would include strengthening planning and budgeting linkages, improving procurement processes, and instituting government monitoring and evaluation systems.

Re-establish open and participatory mechanisms to ensure transparency and accountability in procurement and use of COVID-19 funds

If we truly want a whole-of-nation approach to pandemic recovery, the next

administration should open spaces that would allow civil society organizations to participate in the budget process as early as the budget preparation phase. Budget participation would allow the government to craft a budget that is more responsive to the needs of ordinary Filipinos who also pitch in to the financing sources of the budget through their taxes.

Finally, as the pandemic response involves a substantial amount of public funds, it is imperative for government agencies to be transparent about how these funds are utilized. Government must spearhead the establishment of an online portal that provides comprehensive, timely and publicly available status reports on fund utilization and project implementation. These reports must provide the public with pertinent information on what the targets of government agencies are, how much funds have been used, and what the accomplishments have been, among other pertinent information. In this manner, CSOs and the respective government agencies are able to work together in ensuring budget transparency and accountability.

¹ Includes fund releases during a short period between the expiration of Bayanihan 1 and the passage of Bayanihan 2 which is referred to by DBM as “post-bayanihan 1”

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GOVERNANCE AGENDA FOR DEVELOPMENT IN A POST COVID-19 PHILIPPINES

FRANCISCO A. MAGNO, PH.D



GOVERNANCE AGENDA FOR DEVELOPMENT IN A POST COVID-19 PHILIPPINES

FRANCISCO A. MAGNO, PH.D.

The values and continuity of democratic governance are tested in the Philippines every six years as voters troop to the polls to elect a new Chief Executive. On 9 May 2022, national elections will be held to choose the sixth President to assume power under the aegis of the 1987 Constitution. Framed in the aftermath of the fall of authoritarianism that prevailed over the country from 1972 to 1986, the Constitution sought to protect individual liberties, promote participation, and restore the system of checks and balances in the exercise of government power.

James Buchanan argued that “the term ‘constitutional’ must be prefixed to the term ‘democracy’ if the latter is to be sustainable in an internally consistent normative argument” (1985/2001, p. 266). However, the international surge of populism has rocked the foundations of constitutional democracy in many places including the Philippines. Democratic backsliding ensued when executive aggrandizement became the dominant feature in national politics. This happened when elected leaders diluted the constitutional checks of independent oversight bodies on executive actions and eroded the capacity of independent groups to offer alternatives on executive choices (Bermeo, 2016).

Democracy anchored on citizen sovereignty suggests that the political order is imbued with constitutional elements that protect individual liberties and provide institutional constraints on policy making by representative majorities. These constitutional safeguards serve to mitigate the potential risks posed by

pure majoritarian procedures on democratic outcomes (Vanberg, 2018, p. 16). Nevertheless, the rise of the populist leader President Rodrigo Duterte in 2016 indicates how the purely majoritarian conception of democracy can trigger practices that are inconsistent with constitutional democracy. Galvanizing the support of a majority coalition in the legislature, Duterte consolidated political power, silenced the opposition, and eroded the rule of law in the country (Fernandez, 2021, p. 201). Whether there will be continuity or change in the governance practices related to democratic backsliding will depend on the results of the 2022 national elections.

In recognizing the importance of individual freedoms as the basic building blocks of development, Amartya Sen emphasized the need to build and expand the capabilities of persons to lead the kinds of lives they value. He pointed out that “these capabilities can be enhanced by public policy, but also, on the other side, the direction of public policy can be influenced by the effectiveness of participatory capabilities by the public” (1999, p. 18). The democratic values enshrined in the Constitution come to life when they are supported by the capabilities of people to exercise their freedoms and participate in the deliberation of development goals and priorities. It is essential that the people are capable and the enabling conditions are available for participation to be meaningful in the policy process. In the capability approach, attention is brought back to the institutions for collective decision making towards determining the path to development (Evans, 2021, p. 97).

The poor performance of the Duterte administration in responding to the pandemic is reflected in the low ranking of the country in the Bloomberg CoronaVirus Disease (COVID)-19 Resilience Index (Bloomberg News, 2021). This stems from the application of a punitive strategy in controlling the virus (Hapal, 2021). The reliance on coercion has been a hallmark of the populist administration that has shaped decision-making processes in the country since 2016. Instead of building consensus among multiple stakeholders to craft a comprehensive health and development perspective to address the COVID-19 crisis, the national leadership continued to pursue a polarizing style of politics where alternative opinions were brushed aside and those who do not toe the line were branded as enemies. The propensity to silence critics, rather than learn from them, proved to be detrimental in crafting a whole-of-society approach to the pandemic. This represents a failure to pursue democratic governance

innovations that are inclusive and effective (Hendriks, 2021, p. 4).

Populism should not be construed as a particular type of political regime. It was pointed out that the style and tenor of populism are derivative of democracy (Urbinati, 2019, p. 213). Indeed, Philippine constitutional democracy, with its focus on free elections and majority rule, enabled the rise to power of Duterte's populist presidency. Ironically, democratically-elected populist leaders can leverage their popular support to defy the rule of law and balance of power that frames constitutional democracy. The authoritarian inroads impelled by populism presents a challenge to the sustainability of the democratic system given the weakness of political parties, independent media, and oversight institutions.

This study examined how the Philippines fared under contemporary populism in terms of the quality of governance and development outcomes through the use of the Worldwide Governance Indicators. It also considered how the national leadership responded to the pandemic by looking at COVID-19 resilience measures. It is important to take stock of governance trends and performance over the past five years to provide analytical insights as citizens prepare to choose the next administration in the 2022 presidential elections. This would be a crucial political exercise that will determine whether there would be continuity or change in the character of governance in the country.

Quality of Philippine Governance

The Worldwide Governance Indicators (WGI) have been measuring the quality of governance in more than 200 countries since 1996. WGI contain six composite indicators of governance, including voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, and control of corruption. These indicators are based on variables collected from 31 data sources that cover governance perceptions that come from survey respondents, non-government organizations, commercial business information providers, and public sector organizations across the globe (Kaufmann, 2010, p. 2).

The governance score of a country under WGI can range from -2.5 (considered weak governance performance) to 2.5 (strong governance performance). Table 1 shows the quality of Philippine governance from 2015 to 2020. The country received positive scores in voice and accountability from 2015 to 2019. However,

the estimated scores started to decline from 2017 onwards. On the other hand, it garnered negative scores in control of corruption, rule of law, and political stability throughout the entire period. It got shifting scores in both regulatory quality and government effectiveness.

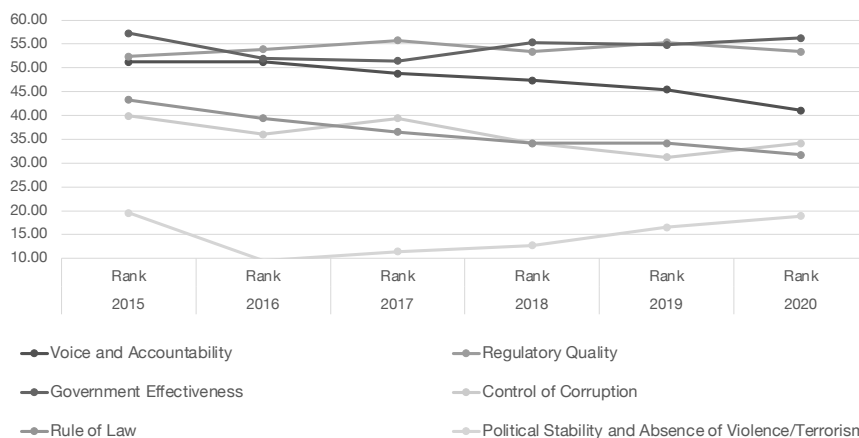
Figure 1 presents the percentile ranking of the Philippines from 2015 to 2020 for every indicator. The percentile ranking of the country showed declining

*Table 1 . Quality of Philippine Governance
(2015-2020, Estimated Scores)*

Indicators	2015	2016	2017	2018	2019	2020
Voice and Accountability	0.15	0.16	0.08	0.01	0.01	-0.10
Regulatory Quality	-0.04	0.00	0.02	-0.06	0.01	0.03
Government Effectiveness	0.11	-0.01	-0.05	0.05	0.05	0.06
Control of Corruption	-0.45	-0.49	-0.48	-0.54	-0.57	-0.48
Rule of Law	-0.34	-0.36	-0.42	-0.47	-0.48	-0.55
Political Stability and Absence of Violence/Terrorism	-0.86	-1.38	-1.19	-1.09	-0.92	-0.79

*Legend: -2.5 = weak governance performance; 2.5 = strong governance performance
Source: World Bank (2021), Worldwide Governance Indicators*

*Figure 1 . World Governance Indicators, Philippines
(2015-2020, In Percentile Rank)*



*Legend: 0 = Lowest Percentile Rank; 100 = Highest Percentile Rank
Source: World Bank (2021), Worldwide Governance Indicators*

trends in voice and accountability as well as the rule of law under the Duterte administration. It improved in the control of corruption from 2016 to 2017 but steadily went down in ranking in the succeeding years. The lowest rankings were registered in the area of political stability.

Control of Corruption

The perceptions of the scope to which government power is used for private gain are captured in the control of corruption indicator. The whole range of petty and grand forms of corruption are similarly covered as well as state capture by elites and private interests. Table 2 reveals that the Philippines ranked 7th among the 10-member countries of the Association of Southeast Asian Nations (ASEAN) in 2020 in fighting corruption with a percentile rank of 34.13. The country was in 5th place in 2015, ahead of Indonesia and Thailand in ASEAN, but was relegated to 7th place starting in 2016. According to the National Economic and Development Authority (NEDA, 2017), the implementation of the Ombudsman's 7-Year Roadmap (2011-2018) has contributed to the country's efforts to manage corruption. However, the country slipped in the ASEAN rankings in 2016 and has not been able to recover since then.

*Table 2 . Control of Corruption
(2015-2020, In Percentile Rank)*

Country	2015	2016	2017	2018	2019	2020
Singapore	96.63	97.12	97.60	98.56	99.04	99.04
Brunei Darussalam	69.23	69.23	75.48	79.81	78.37	87.02
Malaysia	63.46	59.62	58.65	64.42	62.50	62.50
Vietnam	41.83	37.50	31.25	37.50	34.13	42.31
Indonesia	39.42	41.83	48.08	46.63	37.98	38.94
Thailand	37.02	42.31	42.79	40.87	38.46	38.46
Philippines	39.90	36.06	39.42	34.13	31.25	34.13
Myanmar	20.67	32.21	32.21	30.29	29.81	27.88
Lao PDR	17.79	14.42	15.87	15.38	13.46	14.90
Cambodia	12.02	9.13	8.65	8.65	9.62	11.06

Source: World Bank (2021), Worldwide Governance Indicators

Corruption in Pandemic Times

The drop in the country's performance in controlling corruption over the past 5 years served as the prelude for the outbreak of corruption in pandemic times. Studies indicate that young democracies, as well as democracies with authoritarian streaks, are more prone to corruption (Kubbe and Engelbert 2017). Democratic backsliding has enhanced executive discretion and diminished the system of checks and balances in the country. The potential for corruption during a health emergency is far greater especially when pressures for swift government action can lead to shortcuts that damage the integrity of institutional processes. The risk areas include the withholding of accurate health data, irregularities in public procurement, purchase of sub-standard equipment, and misappropriation of health budgets (Steingrüber 2020).

The corruption risks in the health sector surfaced with the eruption of allegations regarding the misuse of funds by the Philippine Health Insurance Corporation (PhilHealth) at the height of the COVID-19 crisis in 2020. The PhilHealth case brought to the fore the weak exercise of institutional control mechanisms in the agency. The resigned anti-fraud officer and the head executive assistant of PhilHealth became whistle blowers in revealing information that led to investigations by Congress on the malpractices in the government corporation. Previous to that, rampant financial violations were observed in reports rendered by the Commission on Audit (COA). These indicate the importance of legislative and audit oversight agencies as accountability institutions within a system of checks and balances.

In the case of Philhealth, it was reported that the Commission on Audit struggled to fulfill its auditing duties due to the difficulty of obtaining documents from Philhealth's Central Office (Terrazola 2020). Corruption is perpetrated when there is a deviation from legal and institutional norms. The system of checks and balances to combat corruption can be improved through the adoption of an integrated approach. This requires promoting a comprehensive strategy that includes the facilitation of basic democratic standards, participation of a strong civil society engaged in transparency and accountability work, and the consistent application of the rule of law.

Minimizing information asymmetry can reduce corruption vulnerability. The poor information technology system of PhilHealth paved the way for the

processing of fraudulent claims in the agency. It was said that key officials in the agency have strong political sponsors, with some regional officials managing to avoid being assigned to other jurisdictions. Public personnel corruption is encouraged by a political culture driven by patronage. Likewise, the regular rotation of key officers and staff may lessen the risks of collusion and corruption.

Allegations were raised on the misuse of public funds amid the uphill battle of the Philippines to control the COVID-19 crisis. The Senate investigated the questionable disbursement of funds by PhilHealth drawn from the PhP 30-billion Interim Reimbursement Mechanism (IRM). The IRM is an emergency support program for hospitals taking care of COVID-19 patients. During the Senate hearings, it was revealed that the IRM funds were released to dialysis centers and maternity clinics with no COVID-19 related cases. Some hospitals were able to collect benefit claims for COVID-19 cases even if the patients were admitted for other ailments.

The COVID-19 crisis affected not just people's health but public finance as well. As the crisis deepened, it began to unravel that the use of the IRM fund was just one of the many alleged corrupt practices that happened during the pandemic. Rent-seeking operations were seen to be at play in other emergency response programs as well. There were a number of suspected irregular actions that benefitted from the COVID-19 response funds. These included the cash allocation to poor citizens that were marred with allegations of corruption against local government officials, the ghost payments to deceased patients getting continuous support for hospitalization from PhilHealth, and the Department of Health (DOH) purchase of overpriced personnel protective equipment, ventilators, and other medical supplies for hospitals and quarantine facilities (Espanola 2020).

The Commission on Audit cited in its August 2021 report deficiencies in the use of the PhP 67.3 million budget of the DOH to address the pandemic, including the handling of petty cash funds, procurement of medicines near expiry, management of fund transfers, and the delayed release of COVID-19 hazard payments to health workers. The Senate Blue Ribbon Committee opened its investigation on these issues and eventually focused its probe on the transfer of PhP 42-billion from the DOH to the Procurement Service of the Department of Budget and Management or PS-DBM. Under the law, PS-DBM can identify those supplies, materials, and such other items, including equipment and construction

materials, which can be economically purchased through central procurement.

In the past, the PS-DBM bought in bulk common use supplies like paper, pens, and paper clips, which other government agencies can then buy from the agency at much lower prices. However, there were questions whether it was appropriate to categorize medical goods as common-use supplies and thereby transfer the procurement of such products from the DOH to PS-DBM. The Senate investigations touched on the failure to apply due diligence procedures in the awarding of multi-billion contracts for pandemic supplies, including face masks, face shields, and COVID-19 test kits, to favored companies despite being undercapitalized and submitting higher bid prices than their competitors.

The hearings of the Blue Ribbon Committee on the procurement of pandemic supplies have driven a severe wedge in the relations between the Senate and the Presidency. The Office of the Executive Secretary released a Memorandum on 4 October 2021 directing all officials and employees of the Executive Department to stop attending the Committee hearings. This was a similar move to the action made by President Gloria Macapagal-Arroyo when she signed Executive Order No. 464 in 2005 that required officials from the executive branch to secure the President's consent before attending legislative inquiries in aid of legislation. The Supreme Court eventually ruled in *Senate v. Ermita* that executive privilege may only be invoked by the President and subordinates cannot exercise such power. It further states that while it is discretionary for executive officials to appear during question hour, it is mandatory for them to show up during inquiries in aid of legislation. On 10 November 2021, the Senate filed a suit asking the High Court to stop the Executive branch from barring its officials from attending legislative hearings on the use of pandemic funds.

Voice and Accountability

The Voice and Accountability indicator measures the extent of citizen participation in choosing their government, the degree of freedom of expression and association, and the existence of a free media. Table 3 shows that the Philippines placed next to Indonesia in the list of ASEAN countries in voice and accountability from 2015 to 2020. It is significant to note that the country's percentile rank has been sliding down since 2017.

*Table 3 . Voice and Accountability
(2015-2020, In Percentile Rank)*

Country	2015	2016	2017	2018	2019	2020
Indonesia	53.69	51.72	51.23	51.69	51.69	52.17
Philippines	51.23	51.23	48.77	47.34	45.41	41.06
Malaysia	33.99	33.99	34.48	40.58	43.48	40.10
Singapore	41.38	40.89	41.38	41.06	38.65	38.16
Thailand	22.17	21.67	21.18	19.81	23.67	26.09
Brunei Darussalam	26.11	23.15	22.66	24.15	21.74	22.22
Myanmar	14.29	24.14	23.65	23.19	23.19	21.74
Cambodia	18.23	18.23	15.76	13.53	14.98	12.56
Vietnam	10.34	10.34	10.34	8.21	11.59	12.08
Lao PDR	4.43	4.43	4.43	4.35	3.38	3.38

Source: World Bank (2021), Worldwide Governance Indicators

The steady fall in the percentile rank of the Philippines in the voice and accountability indicators can be seen from 2017 to 2020. This coincided with the hostile treatment of the media by the government. In his second year in office, President Duterte singled out three media organizations, namely Philippine Daily Inquirer, ABS-CBN broadcast network, and online media outfit Rappler, that had covered the excesses of the drug war. The chilling effect travelled across the free press as media organizations received threats, court cases, and non-renewal of broadcast franchises. A relentless social media campaign was carried out by an army of online trolls against mainstream media and the political opposition. The antagonistic attitude toward the press spread among government officials who adopted the president's own bullying stance (De Jesus, 2021).

State agents were linked to more than half of the total 223 cases of aggression against members of the Philippine media since Duterte became president in 2016. They were the alleged offenders in 114 cases, based on data compiled by the Center for Media Freedom and Responsibility (CMFR) and the National

Union of Journalists of the Philippines (NUJP). The police and the military were implicated in 42 cases. Local government unit (LGU) officials were linked to 38 cases, while national government officials were suspected in 34 cases (PCIJ, 2021).

A governance initiative that survived the transition from the Aquino administration to the Duterte administration, and promotes voice and accountability, is the Philippine Open Government Partnership (PH-OGP). The Philippines is one of the eight founding countries of the OGP in 2011. The OGP is a global coalition of reformers within and outside of government that work together towards co-creating shared commitments, which aim to contribute to improving public service delivery through the mainstreaming of initiatives on access to information, civic participation, public accountability, and leveraging technology to strengthen governance. At the national level, the OGP process is overseen and guided by the PH-OGP Steering Committee that meets on a quarterly basis and is composed of an equal number of government and non-government sector members. It is chaired by the Department of Budget and Management (DBM) and co-chaired by the Mindanao Coalition of Development NGO Networks (MINCODE). The members of the Steering Committee have representatives from national government agencies, local government, legislature, civil society, academe, private sector, and public sector unions (PH-OGP 2019).

Government Effectiveness

The Government Effectiveness indicator captures perceptions of the quality of public services, the quality of the civil service and the its degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Table 4 shows that Singapore consistently got the top rank at 100.0 percentile from 2015 to 2020. The Philippines performed better than Vietnam in 2018 and 2019 but dropped back to 7th spot among ASEAN countries in 2020.

The aim to improve the quality of public services largely hinges on the success of efforts at enabling the interoperability of government processes. The Inter-Agency Business Process Interoperability Program was established to facilitate the

*Table 4 . Government Effectiveness
(2015-2020, In Percentile Rank)*

Country	2015	2016	2017	2018	2019	2020
Singapore	100.00	100.00	100.00	100.00	100.00	100.00
Brunei Darussalam	81.73	82.21	84.13	86.54	87.02	90.38
Malaysia	76.92	76.44	75.48	81.25	79.33	82.21
Indonesia	45.19	52.40	54.33	59.13	60.10	65.38
Thailand	65.87	66.35	67.31	66.83	66.35	63.46
Vietnam	54.81	53.85	52.88	52.88	53.37	61.54
Philippines	57.21	51.92	51.44	55.29	54.81	56.25
Cambodia	25.00	24.04	25.48	32.69	31.73	37.98
Lao PDR	35.10	38.94	37.98	25.00	20.67	22.60
Myanmar	10.10	16.35	13.46	12.98	11.54	14.42

Source: World Bank (2021), Worldwide Governance Indicators

convergence of government databases. This involved setting up an information infrastructure that promoted data sharing and collaboration of the different government agencies. The service delivery model can range from a simple co-location of agencies or one-stop shops to an integrated single-window and single-door approach. For instance, the Philippine Statistics Authority (PSA), which is the lead government agency in the implementation of Republic Act (R.A.) No. 11055 or the Philippine Identification System (PhilSys) Act of 2018, collaborated with the Land Bank of the Philippines (LANDBANK) in a financial inclusion strategy to assist citizens to open their first bank accounts. An estimated 5.9 million registrants have been mainstreamed into the formal financial system through the LANDBANK's co-location with the PSA in various PhilSys registration sites across the country as of October 21, 2021.

The demand for efficient and effective telecommunication services escalated during the COVID-19 pandemic where internet connectivity was essential to provide timely information, monitor health delivery, and respond to people's

needs as they transitioned toward work from home arrangements. In this regard, the Department of Information and Communications Technology (DICT) asked the National Telecommunications Commission (NTC) to guarantee the provision of dependable telecommunication services to the public. Wi-Fi terminals were installed in assigned quarantine and COVID-19 monitoring and quarantine facilities were also equipped with WI-FI workstations. However, the pandemic exposed the country's technology infrastructure weaknesses, including the need to build more cell sites and lay fiber-optic cables that will connect to homes (Freedom House, 2021).

Regulatory Quality

The Regulatory Quality indicator incorporates perceptions of the government's capacity to design and administer sound policies and rules that enabled private sector development. As presented in Table 5, the percentile rank of the Philippines placed it in 5th spot among ASEAN members from 2015 to 2019, but slipped to 6th

*Table 5. Regulatory Quality
(2015-2020, In Percentile Rank)*

Country	2015	2016	2017	2018	2019	2020
Singapore	100.00	100.00	99.52	99.52	100.00	100.00
Brunei Darussalam	76.92	71.15	75.00	74.04	73.08	76.92
Malaysia	74.04	75.48	75.48	74.52	73.56	74.04
Thailand	63.46	60.10	59.62	59.13	60.10	58.65
Indonesia	46.63	50.00	51.44	48.56	51.44	55.29
Philippines	52.40	53.85	55.77	53.37	55.29	53.37
Vietnam	35.58	35.10	36.06	37.98	41.83	46.63
Cambodia	31.73	34.13	32.21	33.17	30.29	29.81
Myanmar	8.65	18.75	19.23	23.08	21.63	28.37
Lao PDR	23.56	24.52	25.48	22.12	23.56	21.15

Source: World Bank (2021), *Worldwide Governance Indicators*

place after being overtaken by Indonesia in 2020. Even if it is listed in the lower half of the latest ASEAN ranking, it should be noted that the country has achieved marked improvements in regulatory quality over the last few years. This can be attributed to reforms in cutting red tape in the bureaucracy and streamlining business registration in local government units (LGUs).

In 2018, R.A. No. 11032 or the Ease of Doing Business and Efficient Government Service Delivery Act, was passed as an amendment the Anti-Red Tape Act of 2007. It directs all government offices and agencies, including LGUs, Government-Owned or-Controlled Corporations (GOCCs), and other government instrumentalities to simplify procedures and expedite transactions in government. All government agencies are required to have a Citizen's Charter that provides the following information: checklist of requirements for each type of application or request; persons responsible for each step; amount of fees (if any); procedure to obtain a particular service; maximum time to complete the process, and procedure for filing complaints. The prescribed processing time would be 3 working days for simple transactions, 7 working days for complex transactions, and 20 working days for highly technical applications.

Project Repeal was created by the National Competitiveness Council and the Competitiveness Bureau of the Department of Trade and Industry (DTI) as the provisional secretariat of the Anti-Red Tape Authority (ARTA). It undertook the review, consolidation, and repeal of outdated regulatory systems that burdened the Philippine economy. Eventually, the Anti Red Tape Advisory Council was established as the advisory body to ARTA. The members include the DTI Secretary (Chair), ARTA Director General (Vice-Chair), Department of Finance (DOF) Secretary, Department of Information and Communications Technology (DICT) Secretary, Department of the Interior and Local Government (DILG) Secretary, and two representatives from the private sector.

For LGUs, the Ease of Doing Business and Efficient Government Service Delivery Act prescribes the use of a verified form, the organization of a physical or electronic business one-stop shop (BOSS), automation of business permitting and licensing system (BPLS), integration of barangay clearances with the LGU business permitting system, one-time release of ancillary permits together with the business permit, and granting the option to review business permits either within the first month of the year or on the anniversary dates of issuance of the business permit.

Rule of Law

The Rule of Law indicator reflects the citizenry's perception of the extent to which agents have confidence and abide by the rules of society. It also covers the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Table 6 manifests that the Philippines is ranked 7th out of 10 ASEAN countries in the observance of the rule of law. Its percentile rank in this category has been on a downward spiral since 2016. This is caused by questions on the integrity of police operations against illegal drugs.

*Table 6 . Rule of Law
(2015-2020, In Percentile Rank)*

Country	2015	2016	2017	2018	2019	2020
Singapore	94.23	96.15	96.63	97.60	97.60	98.56
Brunei Darussalam	66.83	71.63	75.00	74.52	74.04	80.29
Malaysia	69.23	69.23	69.23	74.04	73.08	73.08
Thailand	50.96	54.33	54.81	54.81	57.69	57.69
Vietnam	43.75	56.73	56.25	54.33	53.37	48.56
Indonesia	39.42	40.38	40.87	42.79	42.31	41.83
Philippines	43.27	39.42	36.54	34.13	34.13	31.73
Lao PDR	23.56	20.67	17.79	18.75	17.31	20.67
Cambodia	14.90	12.98	13.46	11.06	17.79	17.79
Myanmar	7.69	17.79	16.35	15.87	12.98	10.58

Source: World Bank (2021), Worldwide Governance Indicators

Data from Real Numbers, the regular update on the anti-drug campaign maintained by the Philippine Drug Enforcement Agency (PDEA), reveals that a total of 6,191 individuals have been killed in drug war operations since July 1, 2016, when President Duterte assumed office, up to 31 August 2021. On the other hand, a total of 307,521 suspects were arrested in 213,504 drug war operations during the same period (Sarao, 2021). In accordance with Article 15(4) of the Rome Statute, the International Criminal Court found that there is a reasonable basis to proceed with an investigation on the killings committed under Duterte's watch between July 1, 2016 and March 16, 2019 in the context of the war on drugs (International Criminal Court, 2021).

To address court congestion and improve citizens' access to swift and fair justice, the Supreme Court of the Philippines initiated several reforms. The Continuous Trial of Criminal Cases (CT) reform initiated changes in court operations, such as in calendaring of cases. It reduced criminal case duration by 55 to 61 days (10–14%). It increased the proportion of cases disposed within 180 days by 8 percentage points and the proportion of cases disposed within 330 days by 9 percentage points. On the other hand, the electronic case management system (eCourt) reform introduced to the courts an automated electronic case management system that allows judges, clerks of court and the public to monitor cases in real time. The eCourt system includes electronic raffling of cases; monitoring and management of important dates of a case; recording of different actions taken during hearings, including decisions and writs of execution; printing and serving of orders from the bench; and determining and recording fee payments. The reform was first launched in 2013 in 58 pilot courts and later rolled out to additional courts in phases. Currently, 10 of the Philippines' 146 cities have adopted the eCourt system, covering a total of 327 courts (Orbeta, et al. 2019).

The Rules of Procedure for Small Claims Cases (SCP) reform provides a quick and inexpensive means of dispute settlement for civil cases concerning monetary claims that do not exceed a certain threshold. SCP simplifies case processing by providing simple forms, encouraging in-court dispute settlement, holding an informal hearing and prohibiting lawyers from attending hearings. The Supreme Court piloted the reform in 44 first-level courts beginning in October 2008. In March 2010, it made SCP effective nationwide (except in Sharia courts), with a threshold of PhP 100,000. Since then, the threshold has increased several times: to PhP 200,000 in February 2016, PhP 300,000 in July 2018 and PhP 400,000 in April 2019 (Orbeta, et al. 2019).

Political Stability

The political stability indicator examines the likelihood that the government will be destabilized or deposed by unconstitutional or violent means, including politically-motivated violence and terrorism. As presented in Table 7, the Philippines placed 9th among ASEAN members in political stability. It ranked ahead of Myanmar where the civilian government was overthrown through a military coup in February 2021.

*Table 7. Political Stability
(2015-2020, In Percentile Rank)*

Country	2015	2016	2017	2018	2019	2020
Singapore	96.19	99.05	99.05	98.58	97.64	97.17
Brunei Darussalam	93.81	91.43	90.00	92.92	89.62	90.57
Lao PDR	61.90	64.29	61.43	59.91	62.26	69.34
Malaysia	56.67	49.52	51.43	54.72	53.77	50.94
Vietnam	50.00	54.76	54.76	49.53	48.11	44.81
Cambodia	49.52	53.81	50.48	52.36	44.34	41.04
Indonesia	24.76	32.38	29.05	26.89	27.36	28.30
Thailand	14.76	14.29	19.05	18.87	28.30	24.53
Philippines	19.52	9.52	11.43	12.74	16.51	18.87
Myanmar	10.48	18.10	13.33	11.32	10.85	9.91

Source: World Bank (2021), Worldwide Governance Indicators

R.A. 11054 or the Bangsamoro Organic Law was signed into law on 26 July 2018. It abolished the Autonomous Region in Muslim Mindanao and provided for the basic structure of government for a new Bangsamoro Region for Muslim Mindanao (BARMM). This followed the peace agreement signed between the government and the Moro Islamic Liberation Front (MILF) in 2014. Compared to its forerunner, the law allocates greater powers to the region and enhanced financial support for its implementation. It also builds on a more inclusive transitional governance arrangement. The remaining risk to peace is the presence of smaller armed groups in the region. These are breakaway factions from either the MILF or the Moro National Liberation Front (MNLF), such as the Abu Sayyaf Group, Bangsamoro Islamic Freedom Fighters, and the Maute group. With the creation of BARMM, the expectation was that these groups would eventually embrace peace or be marginalized as a military force. However, the persistence of danger was palpable with the violent attack on Marawi City in 2017 by armed groups that pronounced its desire to establish an Independent State of Iraq and Syria (ISIS) province in Mindanao (Söderberg Kovacs, 2021, p. 9).

The Philippines also exerted efforts to end the longest running communist insurgency in Asia through the peace process during the early part of the Duterte

administration. Negotiations were conducted intermittently with the Communist Party of the Philippines-National Democratic Front (CPP-NDF) from August 2016 to May 2017. At the start of the dialogue, significant progress was made towards crafting a Comprehensive Agreement on Social and Economic Reforms (CASER). The CPP-NDF also expressed a willingness to craft a Comprehensive Agreement on Political and Constitutional Reform (CAPCR) within the framework of federalism. However, no agreement was signed before the talks broke down. The last round of peace talks formally ended over the declaration of martial law in Mindanao during the siege of Marawi City (Dee, 2019).

Citizen Aspirations and National Concerns

The time series data that showed how the Philippines fared in the WGI should guide the candidates vying for the presidency in developing a campaign platform that identifies collective action mechanisms that promote improvements in controlling corruption, voice and accountability, government effectiveness, regulatory quality, rule of law, and political stability. In accordance with the values of democratic governance enshrined in the Philippine Constitution, it is important that the pursuit of reforms and innovation are anchored on building strong institutions for citizen deliberation, participation, and oversight in the exercise of authority and the disbursement of public resources.

While democracy conceives of the rule of the majority, it should never be seen as a system that condones the tyranny of the majority. Building a deliberative democracy requires the cultivation of civic education and the development of knowledge intermediaries and policy think tanks that help citizens in appreciating the value of data and performance to guide them in holding leaders accountable. Armed with the power of critical thinking and the capability to participate in a meaningful way, citizens can wade through the thick political discussions and discourses that transpire in a democratic ecosystem so that they can eventually make informed choices that converge with their aspirations for a better life.

Leaders vying for the support of the electorate are expected to offer programmatic interventions to fulfill citizen aspirations. Sustainable solutions rather than ad hoc promises are preferred to satisfy the long-term vision and national concerns of Filipinos.

*Table 8 . Most Urgent National Concerns
December 2019 to September 2021 / Philippines
(Multiple Response Allowed / In Percent)*

National Concerns	PR1&2						Change Sep 21 Minus Jun21 (F - E)	Change Sep 21 Minus Sep 20 (F - B)
	UB Dec 19 (A)	UB Sep 20 (B)	UB Nov 20 (C)	UB Feb 21 (D)	UB Jun 21 (E)	UB Sep 21 (F)		
Controlling Inflation	58	33	43	47	39	41	+ 2	+ 8
Increasing the pay of workers	43	36	34	39	35	40	+ 5	+ 4
Controlling the spread of COVID-19	--	38	28	25	24	29	+ 5	- 9
Reducing the poverty of many Filipinos	32	20	26	27	26	29	+ 3	+ 9
Fighting graft and corruption in government	26	21	27	22	23	26	+ 3	+ 5
Creating more jobs	33	28	26	29	26	25	- 1	- 3
Providing assistance/subsidy to those who lost their livelihood and jobs because of COVID-19 pandemic	--	30	27	21	25	19	- 6	- 11
Enforcing the law on all, whether influential or ordinary people	12	13	10	13	16	15	- 1	+ 2
Promoting peace in the country	16	17	11	12	15	15	0	- 2
Addressing the problem of involuntary hunger	--	22	17	15	18	15	- 3	- 7
Fighting criminality	29	16	15	15	13	14	+ 1	- 2
Stopping the destruction and abuse of our environment	12	9	10	12	12	11	- 1	+ 2
Reducing the amount of taxes paid	13	5	10	9	7	8	+ 1	+ 3
Defending the integrity of Philippine territory against foreigners	7	7	4	5	12	5	- 7	- 2
Protecting the welfare of OFWs	4	4	6	5	6	5	- 1	+ 1
Preparing to face any kind of terrorism	5	4	4	4	4	2	- 2	- 2

Source: Pulse Asia, 2021

AmBisyon Natin 2040 provides a good starting point. It is the result of a long-term visioning process through research that was coordinated by the National Economic and Development Authority (NEDA) in 2015. More than 42 focus group discussions were conducted across the country and close to 10,000 answered the national survey. The exercise benefitted from the guidance of an Advisory

Committee composed of government, private sector, academe, and civil society.

In *Ambisyon Natin 2040*, the vision of Filipinos for the country is that “by 2040, the Philippines shall be a prosperous, predominantly middle-class society where no one is poor. Our peoples will enjoy long and healthy lives, are smart and innovative, and will live in a high-trust society.” There were three main governance issues identified, including the elimination of corruption, the promotion of ease and efficiency in government transactions, and the provision of affordable public services.

The governance areas identified in *Ambisyon Natin 2040* resonated in the September 2021 survey on urgent national concerns by Pulse Asia. Table 8 shows that aside from the issues of poverty, inflation, wages, and jobs, the survey indicates that the key governance problems that citizens worry about are graft and corruption (26%), rule of law (15%), and peace (15%).

COVID-19 Resilience Ranking

In Bloomberg’s COVID-19 Resilience Ranking for September 2021, the Philippines placed last in the list of 53 economies. This index considers how the country manages the spread of the COVID-19 virus with the least social and economic dislocation. Regarding efforts to contain the virus, the Philippines had the second-worst positive test rate in the ranking at 27%. This was only better than Mexico. The metric shows that the government only tested the most ill patients and that there were likely high levels of undetected infection in the community.

While a quarter of the COVID-19 tests done regularly turned out positive, tracing and testing remained slow in the Philippines, as local officials were in charge. Hospitals were understaffed and low on bed capacity, forcing patients to queue especially with the surge in infections following the entry of the Delta variant. With the poor vertical policy integration, local health teams worked without uniform guidance resulting in a fragmented response to the pandemic. The most significant impediment to the Philippines’ response has been its limited access to vaccines. It used a disparate range of shots to try and ramp up the rollout. It scored low on all four of the metrics related to economic reopening. With a vaccine coverage rate of 20% of the population, among the lowest of those ranked, the country had one of the most stringent lockdowns in the world (Bloomberg News, 2021).

The weak performance of the Philippines in the Bloomberg COVID-19 Resilience Ranking should not be surprising considering its low percentile rank among the ASEAN members in the WGI government effectiveness indicator. It needs to exert greater effort towards enabling the interoperability of government processes. The Inter-Agency Business Process Interoperability Program can be strengthened to support the convergence of government databases.

*Table 9 . Covid-19 Resilience Ranking, By Score And Economy
(as of September 27, 2021)*

Economy	Rank	Score	Economy	Rank	Score
Ireland	1	79.4	U.S.	28	67.6
Spain	2	78.2	Japan	29	67.3
Netherland	3	76.4	Poland	30	67.1
Finland	4	76.1	Chile	31	67
Denmark	5	75.3	Brazil	32	62.9
U.A.E.	6	74.7	Mexico	33	61.9
France	7	73.9	Australia	34	61.8
Switzerland	8	73.8	Russia	35	61.3
Canada	9	73.8	Egypt	36	61.2
Norway	10	73.6	Peru	37	61
Belgium	11	73.5	New Zealand	38	59.6
Czech Republic	12	72.6	Bangladesh	39	59.6
Austria	13	71.8	South Africa	40	59.1
Turkey	14	71.8	Israel	41	57.7
Germany	15	71.5	Taiwan	42	56.5
U.K.	16	71.1	Iraq	43	56.3
Saudi Arabia	17	71	Nigeria	44	56.3
Sweden	18	70.1	India	45	56.2
Singapore	19	70	Pakistan	46	56.1
Hong Kong	20	69.8	Argentina	47	55.5
Greece	21	69.7	Iran	48	54
Colombia	22	69.6	Indonesia	49	52.4
Mainland China	23	68.8	Thailand	50	47.6
Italy	24	68.6	Malaysia	51	44.1
Portugal	25	68.6	Vietnam	52	43.7
South Korea	26	68.2	Philippines	53	40.2
Romania	27	67.9			

Source: Pulse Asia, 2021

Governance Agenda for Post-COVID 19 Recovery

Democratic backsliding and weak governance contributed to the country's poor pandemic performance. The declining percentile rank of the Philippines in the WGI over the past several years can be arrested through improvements in controlling corruption, voice and accountability, government effectiveness, regulatory quality, rule of law, and political stability.

Controlling corruption requires a comprehensive approach. Corruption should not be simplified as the work of individuals who went astray. The focus should be on corrupt systems. Corruption prevention strategies should look for ways to reduce monopoly power, limit and clarify discretion, and promote transparency and accountability in governance. As a crime of calculation, corruption could be countered by converting it into a high-risk activity through the judicious application of institutional controls, checks and balances, social accountability, and the rule of law.

The Office of the Ombudsman is mandated by law to investigate and prosecute on its own or on complaint by any person, any act or omission of any public officer or employee, office or agency, when such act or omission appears to be illegal, unjust, improper or inefficient. There is a need for the institutional strengthening of the Office of the Ombudsman by upgrading employee skills, augmenting compensation and benefits, and enhancing its fiscal autonomy. The agency is hampered by the lack of lawyers and other resources given its workload.

Under the law, the Civil Service Commission (CSC) administers and enforces the merit system for all levels and ranks in the Civil Service. It promulgates policies, standards and guidelines for the Civil Service and adopts plans and programs to promote the economical, efficient and effective personnel administration in the government. Its Career Executive Service Board manages leadership and integrity development training for career officials in the bureaucracy. However, political appointees are not subjected to this rigorous capacity building program. There is a need to appoint more career personnel in the higher rungs of bureaucracy.

Government effectiveness can be enhanced with the passage of an E-Government Act that would enable interoperability of government data and processes to foster efficiency in the delivery of services. This would aid in the pursuit of a whole-of-government approach to manage the interdependencies across areas of government and among levels of implementation in national

government agencies and LGUs (Colgan, et al. 2014). Policy integration promotes interoperability, removes silos, streamlines processes, and addresses functional overlaps. Amendments to the Public Service Act will respond to the demands of the digital age and augment incomes in a post-pandemic era. The country can attract new investments from foreign companies in telecommunications, transportation, and other service sectors.

There is a need to address governance gaps, including the lack of LGU commitment and capacity, short-term vision in planning and budgeting, unprepared and disempowered citizens, and inadequate policy environment. Vertical and horizontal linkages across different levels of government in development planning, investment programming and budgeting should be strengthened, and areas of convergence identified. The barriers and distortions in inter-governmental relations should be addressed, including unclear roles of different government levels, fragmented relations, and poor fiscal responsibilities of LGUs.

Rightsizing the national government is a key policy measure to improve public service delivery. The program will require agencies to rationalize their staffing pattern with their mandate and functions, and in consideration of other agencies' mandate and functions to eliminate duplication. It will also address the growing number of contractual personnel in government. The passage of the Civil Service Code would address deeply-rooted problems besetting the public service, such as corruption, red tape, violations of employee rights, and weak organizational effectiveness.

The Voice and Accountability indicator may be improved through the passage of a Freedom of Information Act, which would require government agencies to allow public review and copy of all official information to promote meaningful and increased participation of the people in government decision making and public accountability (Magno, 2017). The Budget Reform Act would incorporate the ingredients of a modern, transparent, and participatory budget system. The institutionalization of citizen's participation in the budget process would promote shared accountability.

The Political Party Development Act would strengthen the political party system and build democratic institutions. On the other hand, the Campaign Finance Reform Act would regulate campaign contributions and promote transparency in sources of funds and campaign expenditures. To strengthen

the rule of law, the passage of a Charter for the Commission on Human Rights would provide an effective and expanded structural and functional organization to protect the human rights of Filipino citizens at home and abroad.

The governance agenda in the post COVID-19 era should be anchored on the Sustainable Development Goals (SDGs) to support the attainment of citizen aspirations. SDG localization should be pursued in the context of the need to mobilize research capacity, analyze data, harness technology, and build knowledge partnerships to generate solutions to real-world problems. The Fourth Industrial Revolution is a concept widely discussed in various platforms such as the World Economic Forum. It has been emphasized that the Fourth Industrial Revolution will shape the future of education and work, as well as the provision of public services and the realization of development goals (Dadios, et al. 2018).

Amid the Fourth Industrial Revolution, cities, provinces, municipalities, and barangays need to become smarter, more sustainable, and more responsive to the needs of citizens. Smart cities are the result of knowledge intensive and creative strategies aiming at enhancing the socio-economic, ecological, logistic and competitive performance of cities (Kourtit & Nijkamp, 2012). The data-driven city is a city that implements datafication for enhancing and optimizing its operations, functions, strategies, and services (Bibri & Krogstie, 2020). The localization of SDGs and their attainment would involve the creation of smart, inclusive, and resilient cities that rely on open data and governance innovations that address citizen demand for better public services.

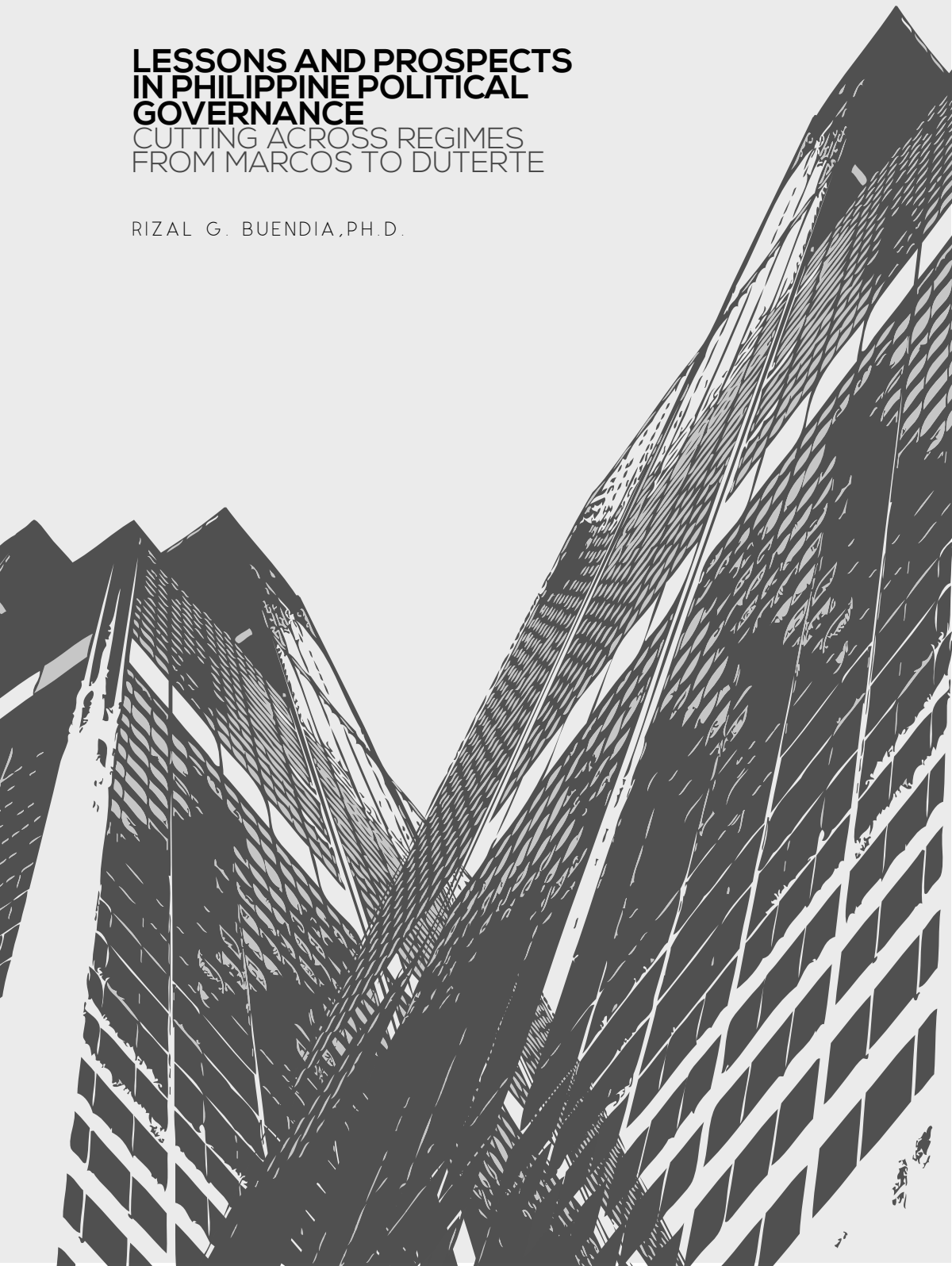
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**LESSONS AND PROSPECTS
IN PHILIPPINE POLITICAL
GOVERNANCE**
CUTTING ACROSS REGIMES
FROM MARCOS TO DUTERTE

RIZAL G. BUENDIA, PH.D.



LESSONS AND PROSPECTS IN PHILIPPINE POLITICAL GOVERNANCE: CUTTING ACROSS REGIMES FROM MARCOS TO DUTERTE

RIZAL G. BUENDIA, PH.D.

In three Philippine constitutions – 1935, 1973, and 1987 – under which Presidents Marcos, C. Aquino, Ramos, Estrada, Arroyo, B. Aquino III, and Duterte ruled, the basic principle of Philippine governance has been laid down. Article 2, Sec. 1 in all three Constitutions states: “The Philippines is a (democratic, added in the 1987 Constitution) republican state. Sovereignty resides in the people and all government authority emanates from them.” Philippine governance therefore establishes the democratic, free, and egalitarian relationship between the people, civil society, private sector, and the state; between the rulers and the ruled; or between the governors and the governed. Nevertheless, more than half-a-century of governance under seven presidents, the country hitherto needs to institutionalize the pillars of political development – mass participation on political affairs, stable and ideologically-coherent political parties, and unwavering interest groups (Buendia 2021).

Notably, the social transformation of the country involves societal and cultural change which is a consequence of economic growth and political advancement. In particular, better governance and political development, whichever form they take, entail structural change; a change that is incremental or dialectical, producing development besides periods of stasis. Frequently, better governance is one of the conditions for sustained economic development, prolonged rule of law, and the robust civil society. Still, the promise and commitment of every political

regime to provide the people and society with a rosy future remains elusive if not a continuing quest. The majority of the people in spite of the avowed and much-publicized growing economy have not enjoyed the fruits of social development and social justice. Evidently, effective government matters.

Against this backdrop, the paper is an attempt to assess and cull key and significant lessons on governance covering the political regimes of seven presidents, (from President Marcos to Duterte) on the areas of transparency and accountability, electoral politics, political party system, political participation, and populist politics. Towards the end of the paper, it argues that bad governance has led to a fragmented government. For this reason, it suggests the fortification of a multiparty system and institutionalization of holistic governance to fill in the crucial gaps and limitations in Philippine governance.

Governance and Why It Matters

There has been innumerable scholarly literature under the rubric of ‘governance’, as a variety of interpretations have been applied in differentiated contexts, capturing the imagination of scholars across a range of fields. Governance has gained greatest currency within the field of public policy and administration, and theories of governance have drawn attention to the complexity and interconnectedness of the policy terrain, yet the subject remains contested on numerous issues and questions (Andrews 2008).

In the most common current usage of the term, “governance” in international development literature, is seen as a move away from the usual government approach (a top-down approach which attempts to regulate the behaviour of people and institutions in quite detailed and compartmentalized ways) to processes in governing (which tries to set the parameters of the system within which people and institutions behave so that self-regulation achieves the desired outcomes). Conceptually, “governance” is the process of decision-making and how decisions are implemented/acted on (or not implemented/not acted on). Accordingly, a political process where power is derived, exercised, controlled, and allocated within and beyond the institutions of government. Following UNDP (1998) and Huther and Shah (1998), governance is defined as the exercise of economic, political, and administrative power in the management of the resource endowment of a state.

Though government and governance are often used interchangeably, these are palpably different. As the “government” rules the state or local political community, “governance” pursues the defined goals in accordance with the proper functioning of a state’s or community’s socio-economic and political institutions. As a paradigm shift in the role of government, governance extends beyond the confines of, yet still predominated by, government. Drawing from the convergence of paradigms, governance bring together interweaving institutional and political economy factors that shape the economic and social development of the country. Moreover, governance can also be contextualized in the corporate, international, national and local level.

Additionally, the notion of “good governance” highlighted in the 1989 World Bank (WB) report on Sub-Saharan Africa, characterizes the crisis of governance in the region (WB, 1989). It underscored the persistence of widespread corruption in developing countries and the widespread lack of commitment among governments to address it. The WB assumes that if economic growth is achieved, political development inevitably follows. Thus, WB argues that political economy considerations should be given prominence. This political component of governance is evidently reflected in its original definition of the concept. Henceforth, governance has been defined by the WB as the way power is exercised in the management of a country’s economic and social resources for development (WB, 1991, p. 1).

Further, an analysis of governance focuses on the formal and informal actors and institutions involved in decision/policymaking and implementing the decisions/policies as well as on formal and informal structures created and or provided by the state or by power-wielding conventions designed to arrive at and implement decisions. Governance is practiced through mechanisms, processes and institutions through which citizens and groups articulate their interests, exercise legal rights, meet their obligations and mediate their differences.

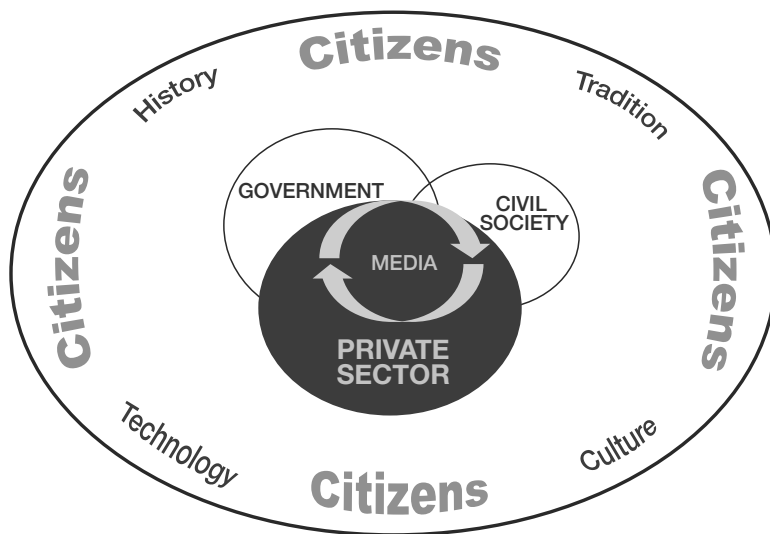
Institutions are critical to governance as they carry out the task of channelling information about public goods, helping government in its regulatory function, reducing the probability of disputes and enforcing contracts or agreements through the judicial system, providing transparent mechanisms governing businesses to avoid or reduce corruption and hurdling bureaucratic obstacles, enhancing competition through a good regulatory structure, and ensuring that incentives are created to shape desired behaviour (WDR, 2002; Grigorian and Martinez, 2000). It is now widely accepted that institutions play a key role in

poverty reduction and economic growth. Political institutions have performed a significant function to safeguard the welfare and rights of citizens of the country and to warrant the unity and integrity of the nation. Strong institutions and good governance result in the overall development of the country.

The government’s ability to govern is gauged not simply on its capacity to pursue and realize development goals through the state’s management system but more importantly on its capability to catalyse social transformation and build a peaceful, prosperous, just, and humane society through the key actors of governance – government, civil society (including the voluntary or not-for-profit sector), private sector, and media. The latter although not part of or controlled by the state, is a passionate actor who plays a strategic responsibility by providing the flow of information between the major actors.

Figure 1 below graphically depicts the interlocking relationship between and among governance actors. There are no lucid boundaries between these players (in fact they overlap) as the sectors are permeable (e.g., state-owned/controlled organizations may bestride in both government and the private

Figure 1 . Interplay of Key Actors in Governance within the Socio-Economic Cultural and Political Context



Source: Edgar, L. et. al. (2006). Institute of Governance, p. 3.

sector; government-funded civil society organizations (CSOs) also straddle two camps). They occupy the social and economic landscape within the context of the traditions, values and history that characterize society.

Collaborative or interactive governance does not only broaden institutional pluralism but also strengthen the centrifugal forces of social pluralism. It maintains a constant balancing process between the governing needs and governing capacities. Inasmuch as no single actor, whether private or public, has the monopoly of knowledge and information required to solve complex, dynamic, and diversified problems nor a single actor exists who has sufficient overview to apply effective solutions to problems, it becomes imperative that the state as well as other governance actors worked together, fused at the central level and at the same time diffused at the local level, addressing local and national issues confronting the populace.

Given this context, the paper examines major trends in governance from former president Ferdinand Marcos to the current president Rodrigo Duterte in order to learn lessons from the country's national experience.

What Has Been Done: Trends and Gaps in Governance From Marcos To Duterte

This part of the paper examines in a comparative mode the type of governance the country has undergone for more than half a century in five areas: transparency and accountability; electoral politics; political party system; political participation; and populist politics.

Transparency and Accountability

Transparency and accountability (T&A) are considered by the United Nations as part of a set of principles of good governance (UNESCAP u.d.) as well as important elements in advancing human rights (UNHROHC u.d.). Equally, international development agencies like the World Bank (WB) and Asian Development Bank (ADB) regarded T&A as main dimensions of good governance (Kaufmann et.al. 2006) and pillars of sound development management (ADB 1995, 1999).

In over two decades, Gaventa and McGee (2013) reflect that T&A arose as significant governance tools in resolving developmental failures and democratic deficits. It is argued that corruption, inefficiency, and government wastage are substantially addressed when there is a high sense of T&A in government. Controlling corruption is thus only possible when government, citizens, and the private sector cooperate to ensure transparency and accountability. In addition, strengthening government's T&A serve as key strategy for improving the delivery of public services and making progress in achieving development goals (Joshi 2013).

Corruption continues to be a major issue in Philippine government and politics. The absence of an adequate, reliable mechanism to exact accountability and advance transparency in government transactions explains how corruption thrives and corrupt activities persist unpunished. The poor performance of the country in the following indicators: the World Bank's Control of Corruption indicator; Transparency International's Corruption Perception Index (CPI); and the Political and Economic Research Consultancy (PERC) demonstrate the "wickedness" of corruption (Ocampo 2010, p. 45; Quah 2018, p. 56). It also explains how Marcos was able to use his position as president of the Philippines to become reputedly one of the biggest kleptocrats in history. Current estimates suggest that Marcos stole at least USD 10 billion which grew through illicit investments. The Marcos case displays the wide variety of forms of corruption that may occur in countries controlled by authoritarian political leaders (Sharman, 2009).

Similarly, democracy icon Corazon Aquino was not free from charges of corruption. While the former President herself was often regarded as incorruptible, critics have accused her of turning a blind eye to family and friends who were said to be enriching themselves at the public's expense (Greenwald 1990). Despite the repeated promises of every Philippine president since the advent of Corazon Aquino to extirpate graft and corruption in government, this promise not been realized. The ineffectual process of transparency and accountability over generations lead to the spread of corruption to the vital centres of government.

In 2000, it was generally perceived that corruption had undermined investor confidence and reduced public's faith in government's sincerity and capability to combat corruption (World Bank, 2001). In the 2019 Corruption Perception Index (CPI) reported by Transparency International (TI), the Philippines ranked 113 least corrupt out of 180 countries. This is 14 notches below the 2018 ranking and 18 down from 2015 before Duterte became president. The country's rank may

seem better compared to during the Aquino III presidency when it ranked 129th (TI, 2020).

Over two decades (1996-2019), under the presidencies of Ramos, Estrada, Arroyo, Aquino, and Duterte, World Bank Indicators (WBI) show that corruption has not been abated. Table 1 displays the estimated governance scores ascribed to the Philippines in line with the aforesaid dimensions. The Worldwide Governance Indicators (WGI) assesses the country’s governance performance ranging from -2.5 (weak) to 2.5 (strong). On corruption control, the country has consistently obtained negative scores.

Table 1 . Corruption Control Indicator by Political Regime (1996-2019)

Philippine President	1996	2000	2005	2010	2015	2019
Year						
Ramos	-0.36					
Estrada		-0.51				
Arroyo			-0.62			
Arroyo/B. Aquino				-0.76		
B. Aquino					-0.45	
Duterte						-0.57

Source of Basic Data: WGI dataset, September 2020, World Bank

Transparency and accountability are the fundamental elements of abolishing corruption in either local or national government. Inasmuch as corruption is bad governance, tackling it, among others, include adequate and credible flow of information, strong civil society, effective and transparent financial management systems, and procurement regulations whose process are fair and open.

Electoral Politics

Philippine electoral politics has deep historical roots, commencing under the auspices of American colonial rule with the conduct of the first direct local elections in 1906 and the first national legislative election (Philippine Assembly) in 1907. The Americans introduced the right of popular suffrage to the country. The

imposition of a system of voting in a predominantly feudal and agrarian society where patron-client relationship pervades effectively configures the relationship between the politician and voter. The patron-client relationship is defined as a mutual arrangement between a person who has authority, social status, wealth, or some other personal resource (patron/landlord) and another who benefits from the former's resources (client/farmer or tenant) (see Landé, 1966 for details).

Originating as a social custom, patron-client relationships became entrenched in politics and elections. Well-organized landlords traditionally got themselves elected to legislative and executive bodies of government. The peasants on their lands had no ability to organize and assert their interests. They voted as their landlords told them to do. This relationship persists, survives, and continues in the elections of the 21st century with few insignificant changes. Former governor Luis Villafuerte of Camarines Sur and previous Chairman of League of Governors of the Philippines admitted in an interview that in Philippine politics, vote-buying is less significant in electoral contests than the sense of gratitude of the people to the patron long before the election. Mr. Villafuerte emphasized "voting for a patron is not considered obnoxious" (*italics provided*) (McBeth 1991 p. 26).

The patron-client relationship is manifested where candidates for generations across seven political regimes distribute goods, services (infrastructure, health, dental, and medical, and welfare) during campaign period, and cash (especially on the eve of election day). Voters (clients) on the other hand, seek material goods from candidates in exchange for their vote. Some civic organizations use the opportunity to ask for donations from politicians. Small enterprises make windfall profits through contracts with individual candidates for their campaign paraphernalia including t-shirts, calendars, balloons, pencils, and basketballs with their names emblazoned on it. Businesspersons support candidates whom they believe have a high probability of winning, rather than based on principles, in exchange for contracts and favours beneficial to their businesses. This type of "utilitarian" culture perseveres in Philippine society.

Beyond issues and platforms of government, a politician traditionally campaigns with promises of providing government jobs, financial assistance, educational support, and other personal aids. In turn, the voter supports the politician who can produce tangible and material benefits (positive transaction) or capability to inflict harm or punishment to those perceived to be their "enemies" and "exploiters". The latter is what what then President Joseph Estrada projected to voters in the 1998

elections. As a movie actor for some four decades who played a lead role in over a hundred films, Estrada consistently acted as the defender of the poor, oppressed, and victims of injustices against rich and corrupt politicians. Estrada was seen as the “peoples’ hero.” Hence, when Estrada ran for President under the umbrella political coalition party of the opposition, *Laban ng Makabayang Masang Pilipino* (Struggle of the Patriotic Filipino Masses), he won with almost 40% of the overall votes. Low-income voters had identified themselves with Estrada’s mission to “liberate” the underprivileged from poverty and injustice.

Moreover, the symbiotic relationship between the candidate and voter is demonstrated by the latter’s allegiance to the former by virtue of their collective affinity to the same province, region, or ethnolinguistic group. In the 1965 presidential election Ferdinand Marcos (1965-1986) heavily relied on the so-called “solid north” as his strong electoral base in the contest against then-incumbent Diosdado Macapagal. The concept of the “solid north” referred to northern Philippine provinces, particularly those of Ilocandia, Ilocano descent, or Ilocano-speaking regions (third largest ethnolinguistic group). Macapagal, on the other hand, relied on his home province, Pampanga, for votes. It is the same “solid north” that gave Marcos the support when he vied for another four-year term as president in 1965 under the 1935 Constitution and the 1986 snap election. The latter event, however, was overtaken by the “People Power Revolution.” Beyond this, Marcos’ wife, Imelda, shored up votes from the Eastern Visayas region. Imelda Marcos hailed from the Leyte province, a part of the said region. Additionally, Ferdinand Marcos received significant support from voters in Leyte and Eastern Visayas due to his wife’s familial connections to the region.

Other presidents that succeeded Marcos likewise depended on the support of their home province or region aside from other provinces: Corazon Aquino (1986-1992), Tarlac, Central Luzon; Fidel Ramos (1992-1998), Pangasinan, Ilocos region; Joseph Estrada (1998-2001), San Juan, National Capital Region (NCR); Gloria Arroyo (2001-2010), Pampanga, Central Luzon; Benigno Aquino (2010-2016), Tarlac, Central Luzon; and Rodrigo Duterte (2016-2022), Davao region. The symbiosis between candidates and the electorate mirrors the social values in the Philippine traditional system of values where personal relationships are expected to yield benefits to both patron and client. This relationship however does not create a sense of national community strong enough to strengthen the pillars of institutions and structures in building the nation.

- *Clans and Dynasties*

Of equal importance to Philippine electoral politics is the role played by local clans and dynasties, warlords, and regional kingpins. Given the size of Filipino families and matrix of interrelationships that bind them, this ensures not only the political continuity and dominance of a particular clan in local politics but plays a major role in supporting the ascendancy, continuity, and downfall of Philippine presidents. Furthermore, the support of local clans for a particular politician running in a national election is indispensable in trying to convert mass popularity to actual votes. This is where the party machinery and local dynasties are found to be operating within the context of patronage (Brillantes 1990, Villacorta 1990, Teehankee 2001).

In the 1988 local elections during Cory Aquino's presidency, where new and non-traditional politicians emerged while traditional kingpins suffered some setbacks, political analysts remained unconvinced that this represented a significant and progressive indicator. In fact, majority of the seats in the local governmental units (LGUs) were kept in the hands of traditional politicians. Likewise, the 1987 Congressional elections results depicted the same political reality. It exemplified the return of the pre-martial law contests among the oligarchs. The landlords, compradors, and traditional elites were back to their old power bases after the downfall of Marcos. Post-Marcos political regimes depict the alliances between dynastic political clans (Sidel, 1999). Social scientists explain this tendency to cling to old political traditions as emanating from the old feudal structure of Philippine society; dynasties are accepted by the tenant/voter as givens in Philippine politics (Buendia 1987, 2-3).

The 1992 national elections exemplified the return of the pre-martial law and continuity of contests among the landlords, compradors, oligarchs, and traditional elites. Of the 199 Congresspersons elected in May 1992, 132 had interests in land and agriculture, 17 in logging and 14 in mining; 145 were members of traditional political families or clans (Gutierrez, 1994, 4-5). Political dynasties have endured in the country and are considered to be the building blocks of politics. Teehankee (2018) documents that from 1987 to 2016 (from the presidency of C. Aquino to Benigno Aquino), elected legislators who belong to political clans comprised 70.4% of the House of Representatives (HOR). In the 2013 mid-term elections, all 80 provinces were littered with political families and 74% of the elected members of the HOR came from such dynastic groups (Purdey et al., 2016).

Tadem and Tadem (2016) deduce that the concentration of political and economic power in the hands of clans and dynasties has contributed to dysfunctional Philippine democracy and an electoral system reminiscent of the pre-Marcos and martial law years. Political dynasties remain a feature of the country's political landscape. Dynasties have not been dismantled in spite of the constitutional provision (Art 2, Sec. 26, 1987 Constitution) to prohibit them. Since members of Congress are often direct beneficiaries of political dynasties, it is unimaginable that such a law would be promulgated in the near future.

• *2022 Electoral Dynamics and the Automated Election System*

Among the previous elections conducted in the country, the forthcoming 2022 national and local elections keep up not only the personalist electoral politics but also the nonsensicality of political parties. Political parties are unable to distinguish themselves from each other. Therefore, the electorate is unable to differentiate the policy, ideology, or government program variations from one party to another. The ability of candidates and politicians to swing from one party to another illustrates that electoral parties are plainly factions of a single class – the elite. Parties do not mean anything to either politicians or voters. For brevity, Table 2 exhibits the array of political parties that main presidential and vice-presidential candidates have been previously affiliated with as well as their current political party for the upcoming elections.

As the quest for an honest, orderly, and peaceful elections endure in spite of the structural and institutional limitations of the electoral system, the country perseveres in employing appropriate technology for voting and electronic devices to count votes and consolidate results through the adoption of the automated election system (AES). From 2010 onwards, COMELEC has administered and will be using the electronic voting technology to speed the counting of ballots, reduce the cost of paying staff to count votes manually, provide improved accessibility for disabled voters, as well as publish the election results in a timely manner.

The AES did not intend to and cannot prevent perennial problems like vote-buying, intimidation of voters, harassment of candidates, campaigning against militant groups, and the presence of military men and armed goons in precincts. Ensuring a clean, honest, and peaceful elections depend on the minds and hands of the electorates.

Table 2 . Presidential and Vice-Presidential Candidates and their Previous Party Affiliation and Current Party for the 2022 Elections

Presidential/Vice Presidential Candidate	Previous Party Affiliation	COMELEC-Registered Party for the 2022 Presidential Election
Lacson, Panfilo *	<ul style="list-style-type: none"> • LDP (Laban ng Demokratikong Pilipino/Fight of Filipino Democrats)(2001-2004) • Independent (2004-2021) • UNA (United Nationalist Alliance) (2007-2010) 	Formerly from Partido para sa Demokratikong Reforma (Partido Reforma), but as of March 24, Senator Lacson, resigned from the party. He is now running as an independent.
Sotto, Tito **	<ul style="list-style-type: none"> • NPC (Nationalist People's Coalition) (2007 - present) • UNA (2013-'15) • LDP (1987-2007) 	Partido Reforma
Marcos, Bongbong:*	<ul style="list-style-type: none"> • Nacionalista Party (NP) (2009-2021) • KBL (Kilusang Bagong Lipunan/New Society Movement)(1980-2009) 	Partido Federal ng Pilipinas (Federal Party of the Philippines) or FPP
Carpio-Duterte, Sara **	<ul style="list-style-type: none"> • Lakas-CMD (Partido Lakas Tao/People Power Party-Christian Muslim Democrats)(2021-2022) • Hugpong ng Pagbabago (Alliance for Change) (2007-2018) 	Partido Federal ng Pilipinas
Moreno, Isko *	<ul style="list-style-type: none"> • NP (2006-2012) • PMP (Pwersa ng Masang Pilipino/Power of the Filipino Masses) (2012-2016) • UNA (2012-2014) • NUP (National Unity Party) (2016-2021) 	Aksyon Demokratiko (Democratic Action)
Ong, Willy **	<ul style="list-style-type: none"> • Lakas-CMD (2018-2021) 	Aksyon Demokratiko
Pacquiao, Manny *	<ul style="list-style-type: none"> • PDP-Laban (2012-'14) • NP- 2009-2010 • UNA-2012-2016 	Probinsya Muna Development Initiative aka Promdi (Progressive Movement for the Devolution of Initiatives)
Atienza, Lito **	<ul style="list-style-type: none"> • UNIDO (United Nationalist Democratic Organization)(1984-1987) • LP (Liberal Party) (1987-1991; 1998-2007) • PRP (People's Reform Party) (1991-1998) • Lakas Kampi CMD (Partido Lakas Tao/People Power Party/Kabalikat ng Malayang Pilipino/Shoulder of Free Filipinos)-Christian Muslim Democrats)(2007-2009) • PMP (2010-2012) • Buhay Partylist (2012-2021) 	Promdi
Robredo, Leni *	<ul style="list-style-type: none"> • LP (2013-2021) 	Independent
Pangilinan, Francis **	<ul style="list-style-type: none"> • LDP (1988-1992) • Liberal Party (2001-2021) 	Independent

*Legend: Presidential Candidate: * Vice-presidential Candidate: ***

Source of Basic Data: Author's Own Research

Political Party System

Departing from a two-party system, traditionally controlled by the Liberal and Nacionalista parties, the 1987 Constitution currently adopts a free and open party system. Nonetheless, the absence of any discernible ideological or philosophical

differences between political parties made party-switching or “turncoatism” a common feature of Philippine politics. What is important to the life of Philippine political parties is the accession or defection of village leaders, mayors, governors, congressmen, and senators toward the party with the spoils.

After elections, politicians feel no obligation to their party. Loyalty shifts are justified by the “requirement of our constituents” or “dictates of patriotism” (Villacorta 90, 45). Some politicians often used Commonwealth President Manuel Quezon’s famous quote, “(M)y loyalty to my party ends where my loyalty to my country begins,” as a convenient excuse to switch political parties to serve their own interest. Thus, political principles and party affiliation take the back seat.

In 1972 when martial law was declared and an authoritarian government was established, several politicians abandoned their respective party affiliations and joined the monolithic party of Marcos - the KBL (Kilusang Bagong Lipunan or New Society Movement). Former oppositionists began to jockey for recognition and positions in the KBL leadership, bringing about disunity in the opposition party. And in 1986 when President Aquino assumed presidency through extra-constitutional means, a massive exodus of known KBL politicians who defended Marcos even in his last few days in power were able to successfully slip into the coalition party of Aquino under the wings of “reconciliation and re-democratization.”

In the 1987 congressional elections and 1988 local elections, several KBL stalwart politicians ran under Aquino’s coalition party and reassumed power by riding on the crest of the regime’s popularity. Moreover, several Marcos cronies were even appointed to Cabinet posts and other high-ranking government positions. Several senators and traditional politicians who abandoned the people during the dark years of martial rule decided to return from the United States only when the downfall of Marcos has been imminent and are now back in power.

Table 3 below displays the number of Philippine Presidents from the third to fifth Republic who were affiliated with various political parties (sometimes associated with different political parties simultaneously). These parties had no distinguishing features in terms of ideology, philosophy, standpoint, and viewpoint. For more than half-a-century, these attributes of the Philippine party system have survived and yet neither institutional nor structural changes have

Table 3 . List of Presidents and Party Affiliation from the Late Third to Present Republic

Republic No. / Year in Office	President	Political Party Affiliation
3rd Republic		
1965-1972	Ferdinand Marcos (under the 1935 Constitution)	<ul style="list-style-type: none"> • Liberal (1946-1965) • Nacionalista (1965-1978)
Martial Law/4 th Republic (1972-1981)	Ferdinand Marcos (under the 1973 Constitution)	<ul style="list-style-type: none"> • KBL (Kilusang Bagong Lipunan/ New Society Movement) (1978-1986)
4th Republic		
1981-1986	Ferdinand Marcos/Corazon Aquino	<ul style="list-style-type: none"> • Marcos – KBL (1978-1986) • Aquino – PDP-Laban (Partido Demokratiko Pilipino-Lakas ng Bayan/Filipino Democratic Party-People Power)/UNIDO (United Nationalist Democratic Organization) (1980-1987)
5th Republic		
1986-1992	Corazon Aquino (under the 1987 Constitution)	<ul style="list-style-type: none"> • PDP-Laban (Partido Demokratiko Pilipino-Lakas ng Bayan/Filipino Democratic Party-People Power) (unspecified years of affiliation) • UNIDO (United Nationalist Democratic Organization) (1980-1987)
1992-1998	Fidel Ramos	<ul style="list-style-type: none"> • Lakas-CMD (Partido Lakas Tao/People Power Party-Christian Muslim Democrats) (1991-2009) • Lakas-KAMPI-CMD (Partido Lakas Tao/People Power Party/Kabalikat ng Malayang Pilipino/Shoulder of Free Filipinos)-Christian Muslim Democrats) (2009-present)
1998-2001	Joseph Estrada	<ul style="list-style-type: none"> • Nacionalista (1969-1988) • Liberal (1988-1991) • NPC (Nationalist People's Coalition) (1991-1997) • Laban ng Makabayang Masang Pilipino/Pwersa ng Masang Pilipino (Struggle Of the Patriotic Filipino Masses/Power of the Filipino Masses) (1997-2012) • UNA (United Nationalist Alliance) (2012-2015) • Hugpong ng Pagbabago (Alliance for Change) (2018-present)
2001-2010	Gloria Arroyo	<ul style="list-style-type: none"> • Laban ng Demokratikong Pilipino (PDP/Fight of Filipino Democrats) (before 1998) • Kabalik ng Malayang Pilipino (KAMPI/ Shoulder of Free Filipinos) (1997-2009) • Lakas-CMD (Partido Lakas Tao/People Power Party-Christian Muslim Democrats) (1998-2009) • Lakas-KAMPI-CMD (Partido Lakas Tao/People Power Party/Kabalikat ng Malayang Pilipino/Shoulder of Free Filipinos)-Christian Muslim Democrats) (2009-2012; 2020-2021) • PDP-Laban (Partido Demokratiko Pilipino-Lakas ng Bayan/Filipino Democratic Party-People Power) (2017-2020) • Hugpong ng Pagbabago (Alliance for Change) (2018-present)
2010-2016 2016-2022	Benigno Aquino III Rodrigo Duterte	<ul style="list-style-type: none"> • Liberal Party • Nacionalista (1990-1998) • Laban ng Makabayang Masang Pilipino (Fight of Nationalist Filipino Masses) (1998-2001) • Liberal (2009-2015) • PDP-Laban (Partido Demokratiko Pilipino-Lakas ng Bayan/Filipino Democratic Party-People Power) (2001-2009; 2015-present) • Hugpong ng Pagbabago (Alliance for Change) (2016-present)

Source of Basic Data: Author's Own Research

fundamentally altered. While the changing of parties in power corroborated the operation of “democracy,” it also heralded the deep popular dissatisfaction of people with every presidency. Croissant and Lorenz (2018) characterize the Philippine party system as highly ‘defective elite democracy.’ The elite effectively remains in control over the country’s political processes and outcomes.

The Philippine party system hitherto is largely a one-party/multi-faction system despite the proliferation of political parties. Electoral candidates’ commonalities lie in their class bases, elite origins, and interests they represent. Hicken (2018) attributes the oligarchic control of political parties and paucity of politically active citizenry or mass organizations to the ‘under institutionalized’ Philippine political party system. He contends that an under-institutionalized political party hinders democratic consolidation and good governance as it undermines the ability of voters to hold politicians accountable and produces ambivalence among voters on the merits of a democratic society.

Political Participation

Political participation can be loosely defined as citizens’ activities affecting politics. These refer to civic activities that citizens use to take part in political processes and express their opinions and preferences. They are a critical part of any democracy. In the social sciences, the term “political participation” is often used to describe an action taken by a citizen to influence the outcome of a political issue. Citizens participate in varied forms to make his/her opinions/beliefs known by influencing, persuading, affirming or disputing decisions in authority.

The health of a democratic nation is usually contingent on how active citizens participate in politics. Among others, political participation may take the following inter-connected forms: voting; protest/demonstrations/rallies; public consultation; petition signing; lobbying; blogging about a political issue; volunteering; making donations; joining an interest group; or occupying a private or public property as an act of protest. Given the limited space and broad area on political participation, the paper will focus on the political participation of non-governmental organizations/peoples’ organizations/civil society organizations (NGOs/POs/CSOs) in the process of governance and on “peoples’ initiative.” Both are constitutional guarantees that assure peoples’ political participation.

• *NGO/PO/CSO-Government Dynamics: Collaboration For Whom?*

In enjoining civil society as a partner in development, the 1987 Constitution has laid the framework in CSO-government co-operation. The strategic role of civil society (including the voluntary or not-for-profit sector), specifically NGOs/POs,¹ in governance has been etched in Articles 2 and 13, Sections 23 and 15–16 respectively. Likewise, the promulgation of the Local Government Code (LGC or Code) in 1991, otherwise known as Republic Act 7160, institutionalized the participation of NGOs/POs in the governance of local affairs.

Numerous provisions strewn out in the Code (too many to cite) have mandated the participation of NGOs/POs in planning and monitoring local government projects through ‘Local Special Bodies.’ Equally, they can enter into an active partnership with Local Government Units (LGUs) in development work in terms of: (a) local governance; (b) joint undertakings; (c) preferential treatment for cooperatives and marginalized sectors; (d) assistance for economic, socially-oriented, environmental, or cultural projects; and (e) people empowerment and strengthening accountability (Republic of the Philippines, 1991; Villarin, 1996).

The participation of CSOs in governance allows for authority and power to be shared in enacting policies and decisions affecting society’s public life, aspirations, and interests. It upholds the principles of inclusiveness and democratization in governance, and hence the empowerment of people organized outside of state’s apparatus. Yet, CSO involvement in governance does not necessarily translate to active participation or inclusion of the marginalized sectors in the process of governing.

Despite constitutional guarantees and lawful assurances in establishing and consolidating state and civil society collaboration in governance, the patronage character of Philippine politics has undermined and weakened it. The élite-based political parties and traditional politicians who came back since the 1987 election and thereafter had debilitated the prospect of CSOs in governance. Post-Marcos political regimes depict the alliances between dynastic political clans (Sidel, 1999).

Time and again, state-NGOs/POs collaboration is an endeavour of political leaders to serve as their political machinery, otherwise known as government-initiated NGOs (GRINGOs). For Gramsci (2000) civil society is a protective barrier, an ‘outer rampart,’ of the state that reinforces the hegemony of ruling historical blocs of power. In the Philippines, a significant mechanism of hegemony is the clientelist alliance between the elite and different ‘sections’ of NGOs.

The conflict between the forces of state and CSOs emerged as early as January 1987, less than a year after the so-called “peoples’ revolution,” when the national peasant-based organization, Kilusang Magbubukid ng Pilipinas (Peasants’ Movement of the Philippines) staged a demonstration against the state’s backtracking on its commitment to implement a comprehensive agrarian reform. The violent dispersal of demonstrators led to the death of 18 protesters and injured 74 others (51 demonstrators and 23 state security forces) – a situation reminiscent of the Marcos years. The incident was called the “Mendiola massacre.” The class suit filed by the relatives of the demonstrators who died in the massacre was unfortunately dismissed by the SC in 1993 (SC G. R. No. 84607, 1993).

NGOs/POs continue to suffer from state’s repression despite government’s pronouncements to accommodate them in joint development undertakings. From 1988 to 1989 (Aquino’s “democratic” rule), Amnesty International estimated that 200 NGO/PO workers who were lawfully engaged in community development were victims of extra-judicial killings. (AI 1990, pp. 3 and 5). The relationship between the government and NGOs/POs was further strained when the former used some community-based organizations to support counter-insurgency campaigns in late 1980s until early 1990s (transition period between the presidencies of Aquino and Ramos). This was done through the National Reconciliation and Development Program (NRDP) and Rebel Returnee Livelihood Assistance Financing Program (RRLAFP) where NGOs were used as conduits of funds for rebel returnees. The tactic of employing NGOs/POs² in counter-insurgency programs labelled as “development-oriented” drove the wedge deeper between “second-generation” and “third-generation” NGOs/POs. This undermined the solidarity even among NGOs and POs – a case of dividing, weakening, and co-opting of CSOs by the state.

In 1990, during the presidency of Corazon Aquino, the elite-dominated Congress – consisting of the Senate and the House of Representatives (HoR – established the Countryside Development Fund (CDF). The CDF was a new consolidated ‘pork barrel’³ programme that allowed its members to channel development funds in their respective constituent areas through their own or ‘favourite’ NGOs/POs either as a reward for electoral support or simply a conduit for their personal fund (Capino, 1996 as cited in Clarke, 1998, p. 80). Although CDF is controlled and managed by the Department of Budget and Management (DBM), politicians have a significant influence over its spending priorities.

In 2000, the CDF was renamed Priority Development Assistance Fund (PDAF) under Joseph Estrada's presidency. From 2008 (then under the presidency of Gloria Arroyo), every member of the HoR usually receives an annual PDAF allocation of PhP 70 million (approx. USD 1.4 million), while every senator receives PhP 200 million (approx. USD 4.10 million). The President also benefits from a PDAF-like allocation: the President's Social Fund (PSF) worth around PhP 1 billion (approx. USD 20 million). Given the 304 and 24 members of the HoR and the Senate respectively, Congress has control of cumulatively over PhP 26 billion (approx. USD 530 million) worth of discretionary funds. The PDAF has been widely known as a source of 'grand corruption.'

In 2013, a PhP 10-billion (approx. USD 203 million) scam was exposed regarding the misappropriation of PDAF. The scam ran from 2000 to 2013, covering three presidents – Estrada, Arroyo, and Aquino III. Reports from the Commission on Audit (COA) and investigations of the National Bureau of Investigation (NBI) showed that a highly influential individual, named Janet Napoles, connived with the members of Congress, Cabinet members, and local government officials to siphon out PDAF to non-existing NGOs and disbursed funds to 'ghost projects' and allocate spoils (people's money) based on agreed sharing arrangements. In the wake of widespread corruption, petitions were filed before the SC that questioned the constitutionality of PDAF. In a unanimous decision of the SC, PDAF was declared unconstitutional in November 2013 (SC G.R. No. 208566/G.R. No. 208493/G.R. No. 209251, 2013).

The enfeebled state-CSO collaboration in governance is not only demonstrated in national governance but also in local governance. In a study of urban CSO in Metro Manila, Shatkin (2000) confirms that the policy of decentralization⁵ in the country was taken advantage of by a variety of politically powerful social groups, local political families, and international and domestic business interests which inhibit meaningful civil society participation, especially the underprivileged and deprived sectors of urban communities. The lack of institutional capacity among local governments in many cities and municipalities in the country constricts any significant participation of people in decision making and governance of local affairs. The existence of powerful economic interests at the local level that compete with CSOs for influence has a similar effect.

The engagement of CSOs in the political process that generated 'consent' with politicians has been a product of the clientelism that has typified Philippine political

and social development. The cases cited clearly support Gramsci's perspective on CSOs that maintain the hegemony of the elite over society through the collaboration or alliance between politically motivated CSOs and elitist political regimes.

While both the Constitution and LGC have set in place the infrastructures for the participation of NGOs, POs, private sectors, and the people at large in meaningful governance, the important component of democracy continues to be unresolved – integrity of the electoral and selection process at the local level. The selection process of the leadership at the local levels must be made through a free, fair, honest, orderly, and competitive elections which will truly reflect the genuine will of the constituency. This is an issue not only limited to decentralization and the central-local relationship but also a serious concern of the national government itself. This issue involves a sweeping reform in the country's electoral system.

- *Party-list System*

In the attempt to enlarge the involvement of the marginalized groups and parties in decision making and in response to the democratizing role of NGOs/POs and CSOs in the 1986 "People Power Revolution," the framers of the 1987 Constitution adopted a German-style mixed-member system which allows other voices apart from the single-district representative to be heard in the halls of the HOR – the Party-List System (PLS) (see Sec 5, Art. 6, 1987 Constitution). However, the law on PLS was formulated in 1995 under Republic Act 7941⁶ and was not implemented until the 1998 election; the first party-list representatives were appointed by President Aquino to serve from 1987 to 1997. It was under the presidency of Estrada that PLS candidates were able to campaign for the 1998 poll.

The PLS is a mechanism of proportional representation in the election of representatives to the HOR from national, regional, and sectoral parties or organizations or presidential coalitions that have successfully registered with the Commission on Elections (COMELEC). It is envisioned that by drawing people's representation from the "masses," a more democratic and legitimate political system would emerge. Nonetheless, the impact of the party system on the democratization process was insubstantial if not negligible.

Contrary to the German-style where more than one-half of the total seats in the legislature (the Bundestag) are allocated to party lists using proportional representation, the Philippines reserves no more than 20% of the total number of representatives of the HOR to party list groups. The PLS law further states that

“parties, organizations, and coalitions receiving at least 2% of the total votes cast for the party-list system shall be entitled to one seat each” and an additional seat for every 2% of the vote thereafter until a party has a maximum of three seats. This means that a party can win three (3) seats if it surpasses 6% of the national vote. This low threshold and restriction in representation simply lead to small parties with narrow interests.

Originally conceived under the law that party list representatives shall constitute the marginalized and underrepresented 12 sectors of society, i.e., labor; peasant; urban poor; indigenous communities; women; youth; fisherfolk; elderly; handicapped; overseas Filipino workers; veterans; and professional groups, the 2013 decision of the Supreme Court (SC) widened the representation to various kinds of groups and parties, not limited nor exclusive to the less privileged sectors (Aning 2013). Hence, national parties or organizations and regional parties need not organize along sectoral lines and do not require to be representative of the deprived sector.

Consequently, the judicial ruling allows traditional and elitist politicians to form their own or join “affiliate” party list organizations either to regain or retain their power and influence in the HOR. In May 2019 elections, for example, President Rodrigo Duterte referred to the PLS as an “evil” where “they are named after labourers, but their nominees are millionaires,” such that the system no longer served its intended purpose of helping the poor (Romero 2019). The President’s assertion seems to have some merit. Some party-list groups are either highly influenced or controlled by elitist and traditional politicians as well as political clans (Wurfel 1997).

The traditional elitism in Philippine political party system from Marcos to the present regime is one of the biggest obstructions to the fulfilment of democratic rule and good governance. As Hicken (2018) articulates, the sub-institutionalization of the country’s political party system thwarts the realization of a free society and representative governance; its weakness fosters “democracy deficit” (Hutchcroft and Rocamora 2003); and adds to systemic lack of accountability (Montinola 1999).

- *Peoples’ Initiative*

Another form of people’s participation in governance is through the peoples’ initiative. This involves the mechanisms of plebiscite, referendum, initiative, and recall following the mandate of the Constitution (Art 10, Sec. 3). Amendments to

the 1987 Constitution on the other hand shall be made through peoples' initiative, requiring a petition of at least 12% of the total number of registered voters, of which every legislative district must be represented by at least 3% of the registered votes therein (Art 17, Sec 2), apart from the conduct of constitutional convention or vote of two-thirds of all members of Congress. An enabling act, the Initiative and Referendum Act (IRA) or RA 6735 was passed in Congress in 1989 towards the implementation of aforesaid constitutional provisions.

Two attempts were made to amend the 1987 Constitution using "peoples' initiative." In 1997, a year before the end of Fidel Ramos's presidency, the People's Initiative for Reform Modernization and Action (PIRMA), started a signature campaign to shift the presidential system of government to a parliamentary system and lift the term limits on elected officials, including Ramos himself. The initiative was denied by the SC on the ground that it does not have "enough" enabling law to revise the Constitution (SC G.R. No. 174153, 2006).

The second attempt was made by then President Gloria Arroyo when she urged the legislature to draft an amended constitution that will replace it from presidential-unitary to parliamentary-federal in her "State of the Nation Address" (SONA) in 2005 (Buendia 2006). She then constituted the Consultative Commission led by former UP President, Jose Abueva, to draw up a plan for a unicameral-parliamentary system of government and decentralizes more power from the central to LGUs.

Likewise, Arroyo caused the organization of *Sigaw ng Bayan* (Voice of the People) as a "peoples' initiative" mode in altering the constitution. *Sigaw* was similarly joined by the Union of Local Authorities of the Philippines (ULAP)⁷ which advocates for charter change. However, like the SC's previous decision in 2006 (Ramos term), it was decided with finality that the initiative failed to comply with the basic requirements of the Constitution for conducting a people's initiative, and that peoples' initiative cannot introduce revisions but only amendments (GMA 2006). It argued that changing the form of government, from presidential to parliamentary, or abolishing a house of Congress, such as the Senate, are revisions, which cannot be done by a people's initiative (SC G.R. No. 174153, 2006). Another reason for the rejection of the initiative was the inability of the sponsors to show to the signatories the full text of the proposed amendments before asking them to sign the petition (PDI 21 May, 2013).

Notwithstanding from endeavours to amend the Constitution, peoples'

initiative was equally used to introduce statutes yet ended up unsuccessfully. The first effort to propose a statute through this process was the “2014 Peoples’ Initiative Against Pork” (PIAP). This is a peoples’ and multi-sectoral movement that started in Cebu City to abolish congressional and presidential pork barrel, because of the exposure of the 2013 PhP 10 billion (approx. USD 203 million) scam on the misappropriation of PDAF, popularly known as “pork barrel.” The scam involved three presidents – Estrada, Arroyo, and Aquino III. Cebu Archbishop Jose Palma, one of the movers of PIAP, lamented that the intervention of politicians to preclude the signing of the petition contributed to the lackadaisical participation of the people as the former are against the obliteration of “pork” (Mayol and Matus 2015).

The second bid to delve into peoples’ initiative was when ABS-CBN Broadcasting Network was denied by the House Committee on Legislative Franchises for a fresh 25-year franchise application on 20 July 2020 (Cervantes 2020a) due to several issues including the citizenship of ABS-CBN chair emeritus Mr. Gabby Lopez, violation of the constitutional limits on foreign ownership, reported labor, and tax violations, and other violations of the terms of its legislative franchise among others (Cervantes 2020b).

While civil society organizations, professional and legal groups, and other supporters of ABS-CBN have seriously mused on peoples’ initiative to legally grant the Network’s franchise, the tedious process of petition signing,⁸ COMELEC’s verification of signatures and its weak administrative capability to process the petition, and legal challenges it will face in the Supreme Court in case the use of peoples’ initiative was employed to grant franchise to ABS-CBN, have led the Network’s followers to discontinue their effort.

Populist Politics

The continuing failure of governance and unrelenting corruption, sustained elitism in the political system, and concentration of power in the central government for more than three decades after the fall of Marcos authoritarian regime have led to the rise of populism. People search for populist leaders—belonging to the ‘non-elite’ class and who can identify themselves with the interests and aspirations of the masses. Although populist leaders are very much part of the economic and political elite, they can project themselves as anti-elite and adept in associating

themselves with the hopes and desires of the poor.

While Thompson (2010) appraises the post-Corazon Aquino regime (1986-1992) as a period where ‘reformism’ and ‘populism’ oscillate, only two (2) of the five presidents were considered populists, namely: Joseph Estrada (1998-2001) and Rodrigo Duterte (2016—present). Even if Estrada’s presidency was cut short by another mass mobilization, dubbed as ‘People Power 2’ or ‘EDSA Dos’ in January 2001, after he was pilloried for corruption, drinking, gambling, womanizing, and even for his poor English, his ascendancy to the presidency was notable. He was elected as president not only due to his extensive experience in local and national politics (34 years as a politician) but more importantly due to the image he projected as a movie actor defending the poor against injustices committed by the rich and powerful in the country. Notably, actors, actresses, singers, basketball players, boxers, and other celebrities do break political clans and dynasties in winning electoral posts as a consequence of their fame and attractiveness to the masses (Buendia, 1993; Pertierra, 2017).

As an actor for nearly 40 years, playing lead roles as a ‘compassionate gangster’ in over 100 movies and producing more than 70 films, Estrada gained the endearment of the masses. The latter would identify themselves with the struggles of the former as their ‘hero’ in movies against prejudices, inequalities, and discrimination exacted by filthy rich and corrupt politicians. He captured the minds and hearts of the poor as if he knew how the poor lived, laboured, suffered, and wrestled with everyday life (Hedman, 2001). Estrada’s populism was expressed in his slogan “Erap para sa mahirap” (Erap⁹ for the poor) in the 1998 presidential election when he won by landslide, garnering almost 40% of the votes while the second got only 15%. Unfortunately, his unconstitutional ouster from power in 2001 was instigated by the Catholic Church, powerful political and business clans, middle-and upper-middle class CSOs, and former Presidents with the endorsement of the US.¹⁰

Like Estrada’s case, Duterte clinched the presidency in 2016 with almost 40% of the votes while his closest rival, Mar Roxas (grandson of former Philippine president and old-rich powerful clan) simply got 23%. Riding the crest of the wide-scale drug threat in the country, Duterte campaigned for zero criminal tolerance against drug lords, drug addicts, and criminal syndicates as what he did for 22 years in Davao City (situated in the southern island of Mindanao) as Mayor, and restored peace and order in the city. Likewise, he blamed the rich, elite, and oligarchs for

the poverty of the people as well as traditional politicians for not doing enough to alleviate the destitute condition of the poor and marginalized sectors.

As the first president who came from a province of Mindanao, Duterte also crusaded the substantial transfer of political power from the metropolitan-centre Manila to the regions and provinces through the reorganization of the country's political structure from a unitary to federal state with the aim of extinguishing the age-old centralism of the national government in Metro Manila. Finally, comparable to Estrada who abhors foreign intervention, Duterte advanced nationalism by detesting Western, specifically US, intrusion into domestic affairs. His inclination to ally with the Peoples' Republic of China (PRC) and Russia to check the influence of the US and other Western powers over the country's internal concerns has been hailed the Philippines' 'independent foreign policy'.

In spite of some criticisms on Duterte's brand of populism as 'fascism' (Bello, 2017) and 'return of national boss rule' (Quimpo, 2017), drawn from the works of Sidel (1999) and Kreuzer (2016), due to the massive 'extra-judicial killings' of drug addicts and drug lords and 'human rights violations', Duterte maintains peoples' adoration and admiration on his policies. In the December 2020 Pulse Asia survey, Duterte recorded a 91% approval rating in its nationwide opinion poll, higher by four percentage points that he secured in December 2019 and a 91% trust rating which is eight points higher in the same month a year ago (Reuters, 2020). In a Pulse Asia survey in December 2021, Duterte's approval rating climbed up to 72% in the poll conducted from December 1 to 6 – this went up from the 64% he got in the survey done in September (GMA News Dec 2021). In another survey, Duterte obtained an overall approval rating of 70% in December 2020, an improvement from his 65% score in August 2020, and a 'high trust' rating of 62% compared to 55% four months before. Among the top traits of Duterte that figured out from the survey were 'love for the Philippines', 'concern for Filipinos', and 'responsible, pro-poor, and sincere/authentic' (Parrocha 2020).

Contextualizing the rise of populism in the Philippines, it is a reaction of the people on the failure of the democratic institutions to conclusively address the age-old problems of corruption, peace and order, elitism, poverty, and injustice. Keane (2009) describes populism as democracy's autoimmune disease. It is not only an indicator of the break-down of democracy, but populism has the potential to prevent the emergence of democratic conventions. In Webb and Curato's study (2020), they conclude that the lack of outrage on Duterte's leadership is a

response to the people's frustration with liberal democracy which fail to resolve 'unspeakable miseries' as well as the mass reaction to the 'democracy in the Philippines (which) has long been a legitimating discourse for anti-democratic practices of power' (p.63).

Conclusion and Advocacies:

Addressing the Historical Trends and Gaps in Governance Through Multiparty System and Holistic Governance

Fifty-seven years of governance from Presidents Marcos to Duterte, inclusive of thirty-six years of a regime professed to be democratic, the country's personalistic governance has largely contributed to the growing corrosion of political institutions. The pathologies of the country's electoral system have weakened the legitimacy of government. The feeble party system, turncoatism, massive cheating like vote-buying, patronage politics, elitism, violence, and other corrupt practices of election officials have undermined the legitimacy not only of elected officials of government but also emasculated the processes and institutions of democracy. Moreover, traditional political dynasties have returned after a national cacique had been overthrown in 1986. Unfortunately, despite a series of 'democratic' rule, the institutions and systems of governance were unable to shore up the nation from post-Marcos poverty, economic independence, and mass democracy.

For the upcoming administration, it would be difficult to completely resolve post-colonial national governance issues in a matter of six years. However, it is possible to plant the seeds of good and effective governance given the circumstances, opportunities, as well as limitations. As discussed earlier, governance focuses on the formal and informal actors and institutions involved in decision/policy-making and implementing the decisions/policies as well as on formal and informal structures created and or provided by the state or by power-wielding conventions designed to arrive at and implement decisions. Further, governance is practiced through mechanisms, processes and institutions through which citizens and groups articulate their interests, exercise legal rights, meet their obligations and mediate their differences.

Solving multi-faceted and multi-dimensional problems that cut across socio-economic-cultural and political boundaries requires new approaches and

institutionalization of a principle and ideology-based multiparty system and holistic governance. These are briefly discussed:

- *Multiparty System*

In a country where the electoral party is weak and political parties are personality-based, it would be best to shift to a multiparty system where political parties are differentiated based on platforms and programs or policies of government, principles, and ideologies. In a multiparty system, parties developed their potential and capacity to gain power and control of government or coalesce with other parties with similar or related programs of government or ideologies. Through a strong multiparty system, the process of democratization is made more robust and energetic as more ideas, political programs, and public policies are debated and presented to the people to choose from.

Additionally, multiparty system reinforces the use of proportional representation. This builds up the distribution of seats that reflect the range of a population's views on policy reforms and national vision and direction of the country. A multi-party system equally prevents the leadership of a single party from controlling the legislature without challenge – a natural way for government and opposition to manage their conflicts in democracies.

- *Holistic Governance*

Government needs to become more holistic and more preventive by shifting efforts away from curing problems and putting more focus on outcomes such as better health, lower unemployment or less crime, and on changing the political cultures and mindsets of constituents. Holistic governance, compared to traditional public administration and new public management, poses a daunting challenge to current level of governance. The nature and goal of holistic governance is the creation of a new paradigm in which it directly appeals to the needs of the public.

Developed by British scholar Perri 6 in his 1997 book, *Holistic Government*, he argues that to avoid governance fragmentation derived from functional divisions, government should be holistic (integrated across public sector), preventive (moving away from curing to the prevention of problems), culture-changing (concentrated around persuasion and information rather than coercion and command), and results-oriented (focused on outcome not measures of activity). He advocates three strategies to institutionalize holistic governance in his and

associates' 2002 book, *Towards Holistic Governance: The New Reform Agenda*. These are online governance infrastructure, integrated governmental structure, and active bureaucracy.

Briefly, online governance offers all government services that are integrated among different levels of government, integrated among different departments, and integrated among different websites. This requires three dimensions of website integration: integration among different levels of governments, integration among different departments, and integration among websites; hence a single government portal can offer a whole range of integrated services. Peng (u.d.) contends that online governance will be the main driver for holistic governance. Once understood and accepted by political actors, administrators, and the public, he claims that the integration problems of administrative activities and website presentation can be solved professionally and administratively rather than politically.

Secondly, promoting an integrated government organization calls for two (2) dimensions: horizontal departmental integration and integration with a matrix type organizational framework. A matrix type organizational framework refers to the combination of functional departments and the cross-cutting departments that serve the purpose of coordinating cross-boundaries issues. Cross-cutting departments include departments of human resource management, planning, and information technology. The integration of government functions needs not only an integrating mechanism but also a changing of values structure in government operation.

The value system of a well-integrated organization requires values that include integrity, accountability, service, equity, innovation, teamwork, excellence, honesty, commitment, quality, openness, communication, recognition, trust, effectiveness, leadership and ideas (Kernaghan et al, 2000, 269). These organizational values are dynamic, interactive, forward-looking, and active in nature. Cultivating these values and making them the backbone of governmental operation demands a different breed of civil servant.

Finally, and in relation to the second strategy, holistic governance becomes a reality when an active civil service exists. As articulated by Denhardt and Denhardt in their *New Public Service* (2003), the public sector has to possess the following qualities (Denhardt and Denhardt 2003, 189): commitment toward organizational values; dedication to serve the public; staunchness

to empowerment and leadership sharing; and allegiance to pragmatic incrementalism. An active civil service therefore needs a new system of human resources management that recruits and selects civil servant possessing qualities like moral sense, firm commitment, and initiative taking. When the governing environment becomes even more complex and delicate, the knowledge expertise required of these civil servants will be enormous. A new development plan for civil servants' career has to be created accordingly. And only when the idea of holistic governance enters civil servants' blood stream and integrated operations become natural can the success of holistic governance be achieved (Richards and Kavanagh, 2000: 9).

Gawthrop (1998) further asserts that administrators should have strong democratic and ethical convictions, deep belief in the superior values of democracy, and the moral vision of democracy (p. 24). In the final analysis, modern holistic governance is a matter of democratic rule where people's sovereignty is respected rather than trampled upon. It is a question where power is ultimately held in the hands of the populace in so far as political leaders serve as representatives of the multitude, and political institutions operate as instruments in advancing popular will. Evidently that political leadership will play the most important role in achieving the momentum that the holistic governance ideal demands. In a similar manner, the extent of political leaders' and institutions' legitimacy is limited by people's support.

¹ NGOs are intermediaries between the State and POs. POs are grassroots organizations generally composed of disadvantaged individuals and work voluntarily to advance their members' material or social well-being (see Clarke, 1998, p. 3).

² The "second-generation" and "third-generation" NGOs/POs refer to the difference in their development strategies. "Second-generation" employs community development which focuses on local inertia and develops capacities of local people to meet their own needs. The "third-generation" calls for a more political involvement in the form of support conscientization activities, and beyond that, for empowerment.

³ Pork barreling is known to have been derived from the practice of slaveholders in the pre-Civil War American South of sharing salted pork from barrels with slaves who scurry for their share (Evans 2004). Eventually, it was used as a metaphor for the appropriation of government spending for localized projects secured solely or primarily to bring money to a representative's district. Typically, "pork" involves national funding for government programs whose economic benefits are concentrated in a particular area but whose costs are spread among all taxpayers, to benefit local constituents for election or re-election purposes of representatives. Examples are public works projects, agricultural subsidies, and commercial support.

⁴ Exchange rate is approximately PhP 50 to USD1.

⁵ The decentralization policy is embodied in the 1991 Local Government Code (LGC).

⁶ This Act, which is a consolidation of House Bill No. 3043 and Senate Bill No. 1913, was finally passed by the House of Representatives and the Senate on February 28, 1995.

⁷ The Union of Local Authorities of the Philippines (ULAP) is the umbrella organization of all leagues of local government units and locally elected government officials, and was formed in 1998, registered in 1999, and further endorsed through Executive Order 351, series of 2004.

⁸ As obliged by Sec. 5 of RA 6735, initiative on statutes necessitate a petition of at least ten per centum (10%) of the total number of the registered voters, of which every legislative district is represented by at least three per centum (3%) of the registered voters.

⁹ Estrada's moniker is "Erap," the reversed spelling of "pare," Filipino slang for friend or buddy.

¹⁰ See 'Duterte is right, Estrada insists,' Manila standard, 2016, p. 23 Oct. Available from <<https://manilastandard.net/news/-main-stories/top-stories/219537/duterte-is-right-estrada-insists.html>>

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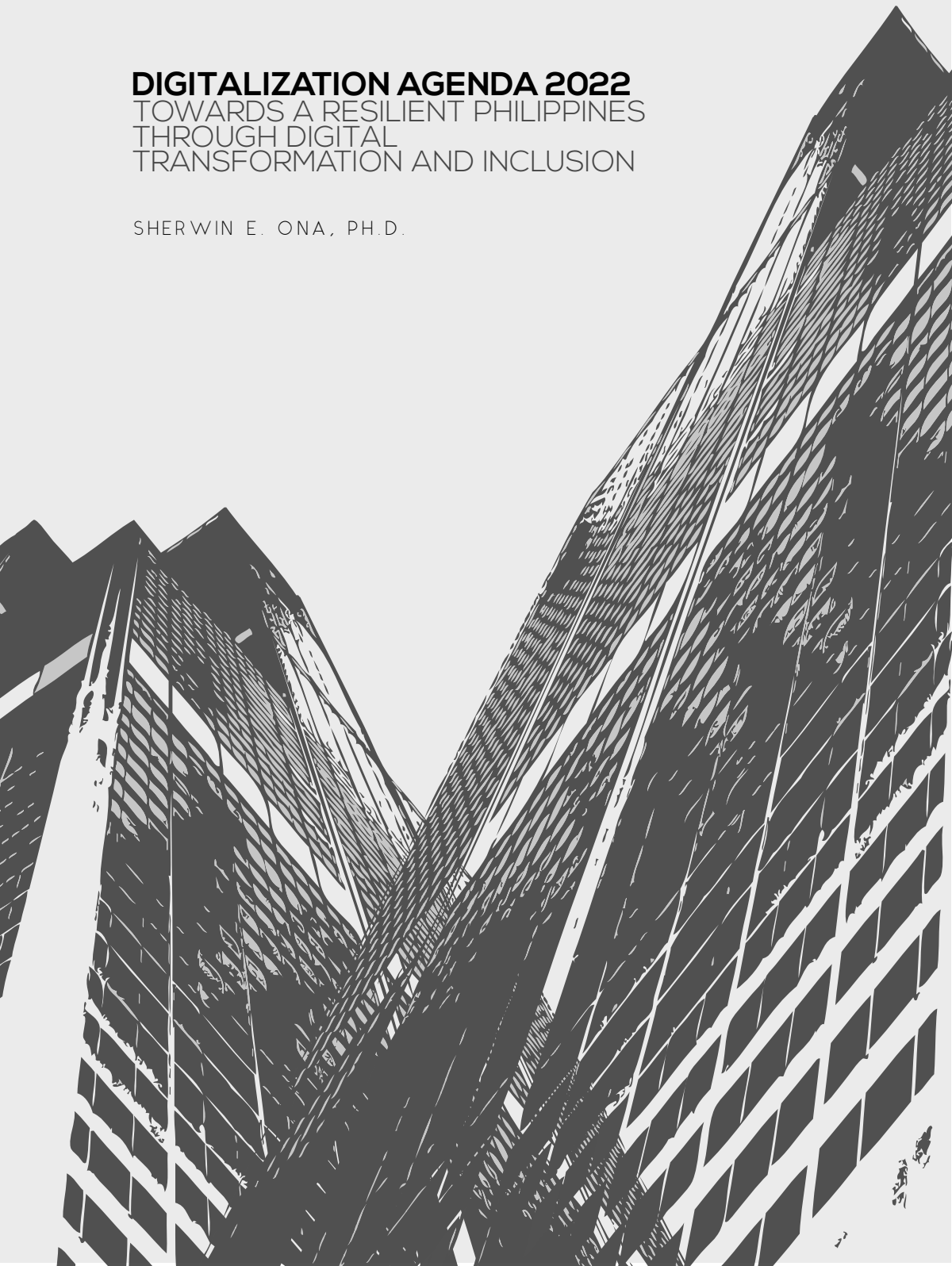
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DIGITALIZATION AGENDA 2022
TOWARDS A RESILIENT PHILIPPINES
THROUGH DIGITAL
TRANSFORMATION AND INCLUSION

SHERWIN E. ONA, PH.D.



DIGITALIZATION AGENDA 2022 TOWARDS A RESILIENT PHILIPPINES THROUGH DIGITAL TRANSFORMATION AND INCLUSION

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In March 2010, renowned economist and Columbia University professor Jeffrey Sachs predicted that by 2025, the world will be able to escape extreme poverty. This bold claim was echoed in his video titled, “2020 Shaping Ideas” where Professor Sachs placed his optimism on the ability of mobile technologies to connect people in underserved regions and communities. Moreover, he argues that connectivity and access to digital technologies can increase productivity and unleash innovation thus resulting in inclusion. Professor Sachs further surmised that this would open the doors to more opportunities and eventually put an end to economic isolation.

Fast forward to 2020. The COVID-19 pandemic has ravaged the world, making it the worst pandemic in more than a hundred years. It has inflicted tremendous human suffering and induced widespread economic dislocation. Furthermore, its virulence allowed states to impose stringent lockdowns that resulted in closures, work stoppages, and limited mobility. This ambiguous and volatile condition continues to paint an ominous future for the whole world. For instance, the US Congress estimates that the pandemic’s impact on global economic growth for 2020 was at -3.5%.¹ Meanwhile, the International Labor Organization estimates that the decrease in consumption and slowdown of global supply chains resulted in a staggering 255 million job loss in 2020.² Also, the discovery and rapid spread of new COVID-19 variants will further affect the ability of economies to recover

from its adverse impact. Because of its profound effects on societies, the World Economic Forum (WEF) is correct in saying that the COVID-19 pandemic has dealt the world with a twin crisis: the pandemic has become the greatest health crisis as well as the biggest economic shock in more than a century.³

Consequently, the pandemic's profound impact has underscored the importance of creating resilient societies. For many, COVID-19 has ushered the "great reset" or an opportunity to reexamine previous views and assumptions.⁴ Likewise, leaders and governments worldwide have recognized the urgency of digitalization to deal with the pandemic's adverse effects. As a strategy, digitalization can be seen as an enabler of inclusion and transformation. Defined as "the use of digital technologies to change an organization's business model, including creating new or improved ways of delivering services, and improving the quality of what is delivered", this concept also underscores the role of digital technologies in ushering transformation of societies and economies.⁵ An example of this is how the pandemic had ushered the use of digital platforms for online shopping, digital payment, and virtual work arrangements. These technology-enabled innovations allowed for continuous economic activity and fostered social cohesion. Furthermore, new practices in learning and telehealth have allowed economies to avoid the severe effects on productivity and wellbeing, thus allowing essential interactions to continue without the risk of infection.

However, future leaders should realize that digitalization is not completely the "bed of roses" that its advocates hoped it to be. Its promises and benefits can also open an insidious box of ills and challenges. Instances of advanced persistent threats like cyberattacks and malware proliferation remain as pressing security challenges. In addition, the spread of disinformation during public health emergencies are well documented. These threats were intended to sow mistrust and undermine the credibility of actors⁶ as well as intensify social discord and weaken institutions.⁷ Another important concern is the ability of these new technologies to exacerbate digital divides.

The Philippines is not immune from these adverse effects. Challenges in its overall pandemic response have resulted in an alarming 9.6% contraction of the country's GDP, its highest since the Second World War.⁸ According to the National Economic Development Authority (NEDA), weaker consumption, and lower productivity due to school closures and low investments will result in a staggering PhP 41 trillion output loss over a 40-year period.⁹

Overall, this paper argues that future leaders of the country should view digitalization as one of the instruments in a solutions toolkit. It can provide options on how to lift the country out of its current malady. As an enabler of economic growth, digitalization can also encourage greater inclusion, drive innovation, and foster good government. For these reasons, this paper presents the proposed Digitalization Agenda 2022 that aims to provide future Filipino leaders with the following:

a. An understanding of the importance of digitalization and how this concept can be operationalized through its three components, namely: Digital Transformation (Dx), Digital Inclusion and the need to protect the country's digital infrastructure.

b. To allow new leaders to “hit the ground running”, the agenda identifies the critical activities and suggests practical steps on how to pursue it.

Background: Digitalization, Digital Transformation, Inclusion and the Protection of Critical Infrastructure

“ Accelerated by the global pandemic, we are entering the next wave of digital transformation: *The Age of Insight* where we must leverage technology to discover insights that can elevate the greater wellbeing of every human on this planet”

-Antonio Neri, President and CEO of Hewlett-Packard Enterprises

In this section, the discussion will focus on answering two basic questions, namely: (a) Why do we need to adopt a digitalization strategy? And (b) What are the benefits and pitfalls of adopting this agenda?

For the first question, it is important for future leaders to have a working knowledge of digitalization: its concepts, practices, and an appreciation of trends. Of course, digitalization is not a new concept. Prior to the pandemic, all eyes were on Southeast Asia due to the region's high growth potential. This is because of lifestyle changes brought about by new digital practices.¹⁰ Furthermore, the region

Box 1 . The Urgency of DX

- *More than 25% of consumers use mobile devices for purchases at least once a week*
- *A 20% increase in telemedicine is expected from 2020-2024*
- *160% increase in frequency of digital purchases*
- *However, 45% of households worldwide do not have access to the internet. In least developed countries (LDCs) only 19% of households have internet access*

Source: The World Economic Forum, 2020

became the hotspot for digital transformation. For instance, the rise of unicorn companies such as Go-Jek, Grab, Lazada, Sea, Tokopedia and Traveloka, has opened new opportunities for small and medium enterprises (SMEs). In addition, a study by Cambridge University and the Asian Development Bank cited the significant increase in investments in financial technologies (Fintech) in the region. The study estimates that in 2018, more than USD 485 million was invested in the sector, and has recorded a stunning 143% year on year growth since 2016.¹¹ Similarly, small package delivery services are expected to grow by 12% (approximately USD165 million) in the ASEAN region by 2025. Partly due to the pandemic, this industry is likely to empower SMEs through its integrated e-commerce and e-logistics systems.¹² Box 1 provides some compelling facts that show that the shift towards digitalization of societies is inevitable. The question is, “Is the Philippines ready for this?” The key to better prepare the nation for this “new normal” is to have a working idea on how to operationalize the concept of digitalization.

For the country’s future leaders, jumpstarting the country’s digitalization efforts is extremely important. A new administration must be able to articulate a sound and practical agenda that can provide a clear vision and foster consensus among stakeholders. Moreover, the agenda should also address the problems brought by the pandemic by providing strategic policy directions and the right investments. For this purpose, this paper proposes that the digitalization strategy be operationalized into three initiatives namely: (a) A digital transformation initiative (Dx); (b) A digital inclusion initiative (DII) and (c) The protection of the country’s digital infrastructure.

Digital Transformation and its Outcomes

As a practice, Dx entails the need to rethink and transform an organization's strategic perspective, business processes, and culture. To thrive in a Dx-enabled business environment, an organization's agility or its ability to rapidly respond to consumer demand while ensuring cost efficiency is paramount. For this purpose, its capacity to integrate suppliers and vendors as well as ensuring rapid time-to-value product development are crucial. Moreover, Dx adoption will also include the ability to adopt innovative practices like sandboxing. Creating collaborative platforms while fostering accountability are hallmarks of this trend.¹³ It also builds on the new developments in telecommunications, software engineering, computing technologies and its resulting effects due to its widespread use. Consequently, Dx requires a robust digital infrastructure that can enable major changes in organizations through the following: a) by creating new business models; b) streamlining of operations, thus decreasing cost; c) improving access to products and services; and d) enhancing the customer experience.¹⁴ There are numerous examples in this regard. For instance, Dx-inspired practices also include connected workers, integrated ICT platforms, the use of advanced data analytics, and remote operations. Furthermore, Dx strategies are anchored on the ability of business enterprises to discontinue its old practices (legacy systems) and increase its competitive advantage through new digital technologies.¹⁵

Similarly, Dx best practices can open new opportunities for the public sector. The onset of advanced digital technologies will allow governments to reexamine its legacy systems, improve the efficiency of its current processes, and explore ways on how to better engage its citizens. It will also push governments to adopt a data governance strategy aimed at maximizing its use of data and move towards greater interoperability among its agencies. Estonia's digital government and zero paper strategy as well as Singapore's smart cities initiatives are good examples of this approach.

However, the ability of governments to adapt to this new Dx enabled environment is dependent on the maturity of its digital ecosystem. This means that aside from a country's digital infrastructure, its policies, organizational capacities, and how it addresses digital divide issues are crucial in fulfilling the promises of digitalization.¹⁶ Table 1 provides a summary of the key points and outcomes of Dx in both the private and public sectors.

Table 1 . Dx Areas and Possible Outcomes

Digitalization Strategy: Digital Transformation (Dx)	Key Points and Possible Dx Outcomes
Business Enterprises / Private Sector	<ul style="list-style-type: none"> • Result in change in business models, organizational structure, and culture. Streamline process to ensure cost efficient operations • Anticipate new expectations coming from customers • Changes are enabled by advanced technologies like IoT, Robotics, Artificial Intelligences, and Big Data • Propensity to discontinue legacy systems
Government/Public Sector	<ul style="list-style-type: none"> • Demand for new services and result in more efficient ways in providing public services. • A new model of participation: Can result in new ways of engaging citizens. • Need to reexamine current practices and legacy systems • The need to leverage the power of data

Source: Author's Own

What Is Digital Inclusion? Why Do We Need to Protect Our Digital Infrastructure?

Digital inclusion is another key facet of a digitalization strategy. In 2016, the WEF projected that the move towards digitalization could result in an estimated job loss from 2 million to as high as 2 billion by 2030. It also envisioned that from 2016-2025, 6 million new jobs worldwide can be created especially in the logistics and energy sector.¹⁷ Moreover, the International Labor Organization (ILO) estimates that 24 million new jobs will be created by 2030 due to emerging green economy practices.¹⁸ For its part, the United Nations sees digitalization as a vehicle for achieving the Sustainable Development Goals (SDG). It cites the proliferation of new technologies especially in healthcare and education as examples of how digital technologies can improve access to basic services.¹⁹

However, new leaders and policymakers should realize that this inevitable shift to a digitalized society is not without its dangers. Barriers like access to the Internet, poor telecommunications infrastructure, and low digital literacy are expected to lead to marginalization especially of the poor. Commonly known as

the “digital divide”, this concept refers to the exclusion of individuals, households, and vulnerable sectors (e.g., Women, children, PWDs, etc.) due to their inability to access digital technologies.²⁰

The current health crisis has also shown that its adverse effects can spawn into other dangers that threaten national security. For instance, thousands of online scams and malware sites emerged during the onset of COVID-19. The overabundance of information has greatly contributed to the confusion of citizens, thus making the decision process more complex.²¹ Furthermore, widespread uncertainty has brought fear and anxiety, thus opening the doors for the malicious spread of rumors and false information that can undermine disease mitigation efforts.²² Another important issue is the ability of states to protect its citizens and institutions against cyber threats. These examples show the vulnerability of states to address advanced persistent threats (APTs), cybercrimes, and disinformation. Therefore, protecting a country’s digital infrastructure is a national security concern and requires a whole-of-society response. Table 2 provides a summary of the key points for digital inclusion and digital infrastructure protection.

Table 2 . Summary of Outcomes for Digital Inclusion and Protection of Digital Infrastructure

Digitalization Strategy	Key Points and Possible Outcomes
Digital Inclusion	<ul style="list-style-type: none"> • Shift towards digital economies will result to job losses and open opportunities for creating new jobs • SDGs and Green practices will foster digital inclusion • Digital divides can exacerbate existing socioeconomic cleavages and must be addressed. Therefore, it is crucial to identify the needs of the marginalized
Protection of a Country’s Digital Infrastructure	<ul style="list-style-type: none"> • A country’s digital infrastructure is a national security concern • Advanced Persistent Threats, cybercrimes, and disinformation endanger the stability of states • Cyber threats require a whole-of-society approach: Recognize the role of the State, the private sector, civil society, and citizens

Source: Author’s Own

COVID-19, the Great Reset, and the Need for a Digitalization Agenda

One of the important lessons that we can learn from this pandemic is that the new normal will be digital. The pandemic has become a watershed moment for digitalization. Learning to live with COVID-19 seems to be inevitable. Thus, this paper argues that the new normal will lead to a “great reset”: a reexamination of views and assumptions that will ultimately lead to profound changes. For future Filipino leaders, it is essential to get ahead of the thinking game and provide the nation with practical options that will greatly impact its way of life.

For business enterprises, the rethinking of strategic assumptions is now inevitable. Its digitalization strategy must now be based on the ability of these enterprises to embrace new business models that can maximize the advances in artificial intelligence, big data analytics, and semantic technologies among others. The shift in markets, adopting green technologies, and the growth in demand makes Dx a must to be able to compete with global players. These developments will affect the country’s MSME sector.

For governments, the priority will be the safe reopening of their economies while enhancing their public health response. In addition, the pandemic will result in a renewed demand for online services and give rise to new expectations. This clamor will come in the form of increased access to services, efficiency, and greater transparency. Moreover, digitalization can enable governments to harness data to support its decision making and improve the coordination between national and local governments. The widespread adoption of these innovative practices will highlight issues on privacy, security, and inclusion. This will open the need for new regulatory frameworks to ensure that benefits from these trends are in line with the public interest. Similarly, these emerging practices will also demand for strong leadership and better cooperation among stakeholders.²³

As for its public health response, greater emphasis will now be placed on how to use digital technologies to get ahead of any viral outbreaks. In this regard, our Asian neighbors provide us with good examples. For instance, Vietnam and Thailand are examples of how integrated public health systems and good risk communication can enhance its response. Meanwhile, South Korea and Taiwan were quick to use mobile contact tracing applications to monitor the movement of infected individuals. In particular, the Korean government’s previous experience with the MERSCOV outbreak underscored the importance of developing an

integrated healthcare system.²⁴ This allowed for the real time monitoring of cases and health service capacities.

In summary, the discussion was intended to provide national leaders and policy makers with the basic concepts and issues surrounding digitalization. A digitalization strategy is a double-edged sword. On one end, it can provide a roadmap on how to achieve the transformation of the current business-governance environment. Through digitally enabled alternatives and proactive policies, its benefits are expected to be substantial. However, its wanton use can also result in further marginalization of sectors, waste of resources, emergence of new security threats, and resistance to change. Therefore, it is important for the country's incoming leaders to adopt a whole-of-society approach which recognizes the role of the state, the potential contributions of the private sector, and the participation of citizens in defining the goals of digitalization. It is also crucial to understand the profound effects of digitalization and the dangers that it entails.

COVID-19 In the Philippines: Challenges and Opportunities for Digitalization

“*The virus has not run its course. In turn, industries and organizations will have to adapt to what one essay describes as the dance with the pandemic. They must adjust their own moves to keep in step with the trajectory of the disease.*”

- Manuel Dayrit and Edilberto De Jesus, in “Responding to COVID 19”

Unfortunately, the government's top-down, militaristic strategy has resulted in one of the world's longest pandemic-related lockdowns. Its inadequate public health response is marred by problems on the sourcing of health data and its risk communication program. Moreover, the pandemic has also resulted in an increase in cybercrimes²⁵ and misinformation.²⁶ Coupled with its severe impact on the country's economy, COVID-19 has indeed become the country's perfect storm.²⁷ Therefore, it is extremely important for incoming leaders to recognize the three areas (Table 3) where the impact of COVID-19 was tremendously felt. However, note that this is not intended to downplay the adverse effects on other sectors. But rather, these areas are viewed as the catalyst of a digitalization strategy.

Table 3 . Three Areas of Concern for the Philippines

Areas of Concern	Pandemic Impact and Challenges
Public Health Response	<ul style="list-style-type: none"> • COVID-19 exposed problems in data collection and aggregation especially in testing and contact tracing • Lack of a fully functional integrated hospital management system • Fragmented digital response: Presence of many independent systems that are not integrated
Micro, Small, Medium-scale Enterprises (MSMEs)	<ul style="list-style-type: none"> • Stringent lockdowns highlighted inability of MSMEs to use digital technologies to link its supply chain with its retail operations. This is due to cost and literacy issues • Most MSMEs are dependent on social media for marketing and selling of products and services • Majority of Filipinos remain unbanked. This is significant since this will affect the ability of entrepreneurs to use digital transactions
Education	<ul style="list-style-type: none"> • The pandemic revealed the difficulty in accessing digital technologies for learning due to its cost, literacy, and bandwidth issues • There is low awareness and use of alternative education programs

Source: Author's Own

To make matters worse, the lackluster handling of the crisis was further compounded by the inability of the Department of Health (DOH) to maximize the use of information resources and digital technologies. In terms of the country's public health response, listed below are the gaps in the Department's information management efforts:

1. *Unreliable Health Data from Hospitals and Communities* – The sourcing of data has been a major challenge in the country's public health response. During the initial stages of the pandemic, the DOH struggled to source reliable data from hospitals and barangay health centers. The COVID-Kaya online system intended to aggregate community and hospital data was not functional due to migration problems.²⁸

2. *The Inability to Coordinate Contact Tracing Data from the Local Governments to National Agencies* – Another concern is the ability to collect contact tracing data. The government's contact tracing czar Mayor

Benjamin Magalong admitted that the current process does not go beyond the household. He further revealed that local governments are unable to use their contact tracing systems.²⁹ Likewise, according to the Alliance of Healthcare Professionals against COVID-19 (HPAC), local governments have different contact tracing practices and systems. It notes that due to the delay in the testing results, the tracing process only starts 10-14 days after a positive diagnosis, which explains the rapid spread of the virus.³⁰

3. *The Failure to Aggregate Data to Aid Decision Making and the Absence of a National Health System* – The absence of an integrated national hospital system shows the inability of the DOH to have a real time view of the outbreak. This also led to the failure of the agency to address the surges in infection as it struggled to direct patients to medical facilities.³¹

In addition, the first year of the pandemic saw the absence of a national contact tracing system. Although COVID-Kaya was eventually used for this purpose, its deployment experienced delays due to migration issues. Meanwhile various local governments used their own independent apps to fill the gap in contact tracing. Further adding to the confusion is the attempt by certain groups within the Inter-Agency Task Force for the Management of Emerging Infectious Diseases (IATF) to use Staysafe.Ph as the national contact tracing system. Staysafe.Ph was eventually relegated to data storage due to the refusal of the DOH to accept the software and allegations of espionage.³²

These challenges illustrate the fragmented nature of the country's public health structure. Moreover, the country's previous health devolution strategy along with the capacity-related disparity between public and private health institutions made information management more difficult.³³ These problems clearly show two things: (a) lack of a long-term digitalization strategy and (b) failure to invest in its digital infrastructure. These two factors will ultimately lead to profound repercussions not only in public health, but also in the other sectors of the economy.

Dangers in the Horizon: A Glimpse of its Spillover Effects

At this point, it is vital for incoming leaders to recognize the arduous work ahead. The inadequate investments in the country's digital infrastructure means that its

digitalization journey will be an uphill climb. In a 2020 report on the country's digital economy, the World Bank cited a plethora of challenges besetting the country. The report states that the country still has an analog economy with 60% of its households unable to access the internet. It also mentioned the country's low broadband penetration, inadequate e-government services, and its dismal 7 Mbps download speed of its 3G/4G services.³⁴ Aside from infrastructure, other factors are cost, literacy to use the digital applications, and motivational access.³⁵ Unfortunately, these challenges reflect the sad reality of the growing digital divide in the country.

Impact of COVID-19 on Micro, Small and Medium Scale Enterprises (MSMEs)

Even before the pandemic, the MSME sector has struggled to address the barriers to its growth. According to the Banko Sentral ng Pilipinas (BSP), 51.2 million of the 72 million adult Filipinos remained unbanked in 2019.³⁶ Because of this, access to credit has remained weak while the sector continues to suffer from poor logistical and market integration.³⁷ This situation combined with the pandemic-related challenges are ominous “writings on the wall” for local MSMEs. In fact, a survey by the Asia Development Bank Institute covering the period March-April 2020 showed that 59.9% of microenterprises had no sales due to the stringent lockdowns. This was followed by small firms (44.8%) and medium-sized firms (35.8%), suggesting a more serious impact on microenterprises.³⁸ For this, questions about its ability to leverage these new technologies often surface. In fact, a 2020 report by the International Trade Center on how local MSMEs adjusted to the pandemic situation cited weak buyer connections of local MSMEs. These digital gaps are traced to policy gaps in research capacity development and innovation.³⁹

Impact of COVID-19 on Education

Even prior to the pandemic, the state of education in the Philippines is often described as being in a state of crisis. For instance, a 2018 study by the Organization for Economic Cooperation and Development's (OECD) Program for International Student Assessment (PISA) revealed that Filipino students scored poorly in reading comprehension among 79 countries. Similarly, a 2019

World Bank report states that 80% of Filipino students performed below the minimum proficiency level. It further notes that only 10-22% of grade 4, 5 and 9 students scored above the minimum level of proficiency.⁴⁰

The pandemic is seen as a major factor that worsens the situation. In fact, another World Bank study entitled “Impacts of COVID-19 on Communities in the Philippines : Results from the Philippines High Frequency Social Monitoring of COVID-19 Impacts Round 2, April 8-14, 2021,” pointed out that the closure of schools resulted in learning loss, especially among children of low-income families. The results of the study’s High Frequency Monitoring (HFM) survey revealed that limited access to digital devices and the inability to focus on their studies as well as teacher capacity are the main barriers to effective learning. Another outcome of the study highlights the low awareness of the Department of Education’s TV and online programs. For instance, a survey of low-income families about these programs shows that there is only 35% awareness of DepEd’s TV programs, 27% on its radio program, and 21% of its online content. It is estimated that the utilization of these programs is lower due to the low quality of its content, relevance, and conflict in schedule among siblings.⁴¹ Furthermore, the Asian Development Bank published a study by the Teach for Philippines project which states that only 55% of public-school students and 26% of public schools have access to the internet.⁴² The study also stressed the need to develop new skills through its technical-vocational programs to better prepare Filipinos to transition to new jobs in a post pandemic environment.⁴³

Digitalization Agenda 2020

Opening Opportunities by Understanding the Digital Filipino

To better exploit the potentials of digitalization, future Filipino leaders and policymakers should have a firm grounding on the history and policies as well as the strengths of the country. Box 2 provides a glimpse of the country’s strengths and the possible opportunities.

In general, Filipinos recognize the potentials of digital technologies in creating opportunities and enabling economic growth. In an October 2021 national

Box 2 . The Country's Strengths and New Opportunities

- ***The Digital Native Filipino:** According to “We are Social” and “Hootsuite”, Filipinos spent the most time on social media worldwide in 2020, with an average of 4 hours and 15 minutes a day. The country also logged the highest Internet usage with 11 hours a day. Specifically, “We are social” pegged the country’s internet users at 73 million as of January 2020⁴⁴*
- ***Pervasiveness of Social Media Dominance:** A 2019 SWS survey says that almost half of Filipino adults (45%) nationwide have access and are using the Internet with 29.4 million having a Facebook account. 24% of this group also read the news daily through Facebook⁴⁵*
- ***Rise of the Millennial Workers’ Cohort:** A younger workforce would lead to a cohort of digital savvy workers. In fact, it is expected that the millennials’ cohort will make up 75% of the global workforce by 2030.⁴⁶ This trend is expected to result in increased productivity and higher demand for flexible working arrangement*
- ***The Philippines’ Satisfactory Rating in E-Government and Open Data:** The UN’s E-Government Development Index (EDGI) rated the country as 77th out of 193 countries, and in E-participation at 57th place. This is considered high EGDI in the region in 2020.⁴⁷ In addition, the Open Data Barometer continues to recognize the Philippines as one of the top performers for its openness and data transparency with its 22nd rank out 115 middle income Asia-Pacific countries.⁴⁸*

survey conducted by the Social Weather Stations (SWS), 89% of Filipinos agreed that digital technologies (i.e., social media, e-banking, and mobile technology) are essential in creating jobs and business opportunities. While 92% of the respondents believed that government should invest more on country’s digital infrastructure.⁴⁹

Another exciting development is the growth of the country’s Fintech industry. In fact, the BSP recognized this opportunity and encouraged industry players to “strike while the iron is hot” and stressed the importance of tapping the “innovation DNA to create worthwhile solutions”. It also noted that the pandemic has opened new opportunities for the FinTech sector and that it is essential for Filipinos to seize the moment.⁵⁰

This of course, is not far from the truth. Around the world, access to digital financial services is expected to increase. For Filipinos, this will result in new

ways of paying, saving, and investing their money. In general, Fintech is a digital platform that can enable financial inclusion through empowering business enterprises. It can also expand the access to basic financial services especially for the unbanked.

Ongoing Journey Towards Digital Transformation and Inclusion

Since the early 2000s, the Philippines has recognized the crucial role of digital technologies in national development. Recognizing the potentials of information and communications technologies (ICTs), the government developed medium term plans that envisioned a digitally enabled society. It also sought the help of the private sector in addressing infrastructure and service gaps. Listed below are the national ICT plans of the country from 2006 to the present:

1. *Strategic ICT Roadmap (2006-2010)*. This served as the government strategy in using ICTs to support its economic recovery, productivity, and growth programs. It also outlined the various initiatives that will improve the country's digital infrastructure and promote access to public services. The plan also identified key sectors of the economy that will benefit from ICT investments such as the IT/BPO sector, MSMEs and digital content development.

2. *Philippine Digital Strategy (PDS) (2010-2016)*. The PDS was developed to build on the targets of the previous ICT roadmap. The PDS embraced the same principle of "digital empowerment" and that this would lead to a more prosperous and just society. Another unique perspective of this plan is its emphasis on good governance. Its support for interoperability among government agencies and its drive towards openness are hallmarks of this plan. Like the previous roadmap, the PDS also underscored the importance of improving the country's digital literacy and using ICT to address persistent problems in various sectors like the environment and in MSMEs.

3. *The Philippine Digital Transformation Strategy (PDTS) (2016-2022)*. This aims to harmonize the existing e-government initiatives to take advantage of the policy window created by the enactment of new laws.

Furthermore, PDTS 2022 is the Philippine response to the ASEAN ICT Master Plan 2022 which calls for tighter integration of national economies. Envisioning the creation of a digitally enabled economy, the plan also highlights the importance of digital transformation in achieving inclusion and sustainability goals. Also, the PDTS seeks to develop user generated content using open-sourced technologies and support collaboration among various stakeholders. The plan also underscored the role of ICT in the government's fight against corruption and emphasized the importance of government efficiency. For this purpose, the E-Government Master Plan (EGMP) was developed to optimize government operations, improve citizen engagement through digital platforms, and enhance the productivity of employees. The EGMP also envisions the integration of vital services and empowers the local governments through the automation of their revenue generation and licensing systems among others.

Philippine Laws on Digital Technologies

Another useful aspect of this journey is the country's existing laws. Responding to the calls of its IT/BPO industry and international partners, the government enacted laws on cybercrime and data privacy. The Cybercrime Prevention Act of 2012 (RA 10175) provides the legal basis for law enforcement agencies to criminalize emerging offences perpetrated using digital technologies and the Internet. The law also sought the protection of the public by defining the type of crimes like identity and data theft and cyber-prostitution among others. Moreover, the law called for the strengthening of the capacities of law enforcement agencies to deal with these crimes. Similarly, the Data Privacy Act of 2012 (RA 10173) provides the legal framework on how organizations should protect personal data.

Meanwhile, the Ease of Doing Business (RA 11032) and PhilSys-National ID (RA 11055) laws lay the groundwork for digitalization. The automation of local government transactions, the digitization of business registries, and a digitally enabled national ID are starting points that can be part of a wider digitalization initiative. Table 4 provides a summary and the salient provisions of these policies.

Table 4 . Existing Laws that Can Support Digitalization Initiatives

Laws	Summary	Action Items
<p>Ease of Doing Business Law (RA 11032)⁵¹</p>	<p>This law is intended to replace the Anti Red Tape Act of 2007. It mandates the streamlining of procedures for business permits and licenses through automation.</p> <p>Emphasized the need to efficiently deliver public services, eliminate graft and corruption and improve the country's competitiveness ratings</p>	<p>The law mandates the creation of the following:</p> <ul style="list-style-type: none"> • Philippine Business Data Bank- this data bank pertains to the creation of registries that can be aggregated through an online portal • Central Business Portal- the portal serves as the single-entry point for transactions. It is envisioned that this can be done through the national government portal. • Prescribed processing time- the law contains a prescribed processing time for simple and complex transactions <p>Zero contact policy- the law prohibits physical/face to face contact related to public transactions</p>
<p>NationalID- PhilSys Law (RA 11055)⁵²</p>	<p>This law mandates the implementation of the Philippine national ID system of PhilSys. PhilSys provides every Filipino citizen with a unique ID number that can be used to transact with government and the private sector</p>	<ul style="list-style-type: none"> - Each ID contains a PhilSys Number (PSN) wherein each number is unique and randomly generated through registration by the PSA (Sec 7.a). It contains the following information: the PSN, full name, sex, blood type, marital status (optional), place of birth, date of birth, address, and a photograph. - The use of the PhilID shall be honored in all transactions that require verification or proof but not limited to: applications for eligibility with regard to social welfare and different benefits coming from the government, application for different services such as GSIS, SSS, PhilHealth, and others, application for passports and driver's license, tax-related transactions, voting application, admission to government hospitals or health centers, other government transactions, application to schools, application and transaction for employment purposes, opening of bank accounts or with other financial institutions, verification of a person's criminal record, and more.

Table 4 . Existing Laws that Can Support Digitalization Initiatives

Laws	Summary	Action Items
Cyber Crime Act (RA 10175)⁵³	This act provides the legal framework on how the country can address the proliferation of cybercrimes. The law also highlights the role of law enforcement agencies and the need to improve capabilities to implement the law.	<p>The law mandates and defines the following:</p> <ul style="list-style-type: none"> • Definition of cybercrimes as illegal access, cybersquatting, and misuse of electronic devices. Also involves theft, fraud and forgery done through electronic means. • Designates the PNP and the NBI as the primary agencies that will implement the law • It allows the collection of electronic traffic data • Calls for the establishment of the Cybercrime Investigation Coordination Center, the development of the national cybersecurity plan • The law also recognized the need to coordinate with the private sector and local governments on its implementation.
Data Privacy Act (RA 10173)⁵⁴	The strong clamor from the IT/BPO sector resulted in the enactment of this law. The DPA aims to define the privacy rights of individuals and the role of organizations in safeguarding these rights.	<p>The DPA covers the following concerns:</p> <ul style="list-style-type: none"> • The law aims to protect individual privacy rights in a digital environment • Created the National Privacy Commission as the main agency that is responsible for implementing the provisions of the law. • The law also defines the roles of the data privacy officer, data controller, and personal data processor in an organization • Provided the sensitivity classification of personal data
E-Commerce Act of 2000 (RA 8792)⁵⁵	This law defines the use of electronic transactions and the need to secure and preserve these transactions. It also provides a framework for government on how to management electronic transactions.	<ul style="list-style-type: none"> • The law recognizes the potential of e-commerce and provides rules on how to handle goods and electronic documents. • Provides rules on accepting electronic documents and signatures for government transactions. It also mandates government to protect electronic transactions. • Calls for the development of the RPWEB that will serve as the government's information network for electronic transactions. • Mandates the DTI to lead the promotion of e-commerce in the country

Digitalization Agenda 2022: Digital Transformation, Digital Inclusion and the Protection of the Country's Digital Infrastructure

At this point, an important question to ask is, “Why is there a need to adopt a digitalization agenda”? National elections in the Philippines signal a major shift in the country’s development agenda. This event highlights the possible changes in the country’s priorities and policy directions. The acute damage inflicted by COVID-19 also means that the country’s recovery phase should be a “game changing” period. However, incoming leaders must realize that the country’s current laws and programs remain fragmented and are subject to short political cycles. For instance, laws such as RA 11055 and RA 11032 are not synthesized to deliver an integrated e-government service portfolio. It’s penchant for “one-stop shops” falls short of digital transformation due to its focus on business process automation. This improvident view dissuades service interoperability and further perpetuates the existence of organizational silos in government. Moreover, this condition hampers collaboration, transparency, and efficiency of services. Thus, digitalization becomes indispensable and here are the following reasons why an agenda is needed:

1. *The New Normal is Digital.* We often encounter the term “new normal” being equated to the ability of people to adjust to the new health restrictions. Nevertheless, these restrictions should now drive us to rethink our traditional practices. Simply put, these limitations should lead us to think of new opportunities and accept that there is no going back to the old ways. For this, digitalization provides us with new options on how to innovate government services. Furthermore, it must also allow our public institutions to transform its transaction driven practices (viewing government as a service dispensing machine) to a citizen-centric approach. This new strategy requires our leaders and institutions to define public services according to the needs of its citizens. This technique can identify key sectors of our society and provide the necessary venues that would foster competitiveness as well as inclusion. Also, these venues can strengthen the country’s commitment to good government. For this purpose, the Ease of Doing Business Law can lay the groundwork for the use of digital technologies in local governments, digitizing MSMEs

data, and provide a benchmark for improving service quality. Another important legal development is the National ID-PhilSys Law. A digitally enabled national ID can provide Filipinos with seamless access to online government services.

2. *There is a Need to Eliminate Boundaries.* The idea of digital boundaries is often equated to challenges in access to broadband services. Although this is true largely because of the low broadband penetration in the country, this is not the complete picture. Issues on device access (e.g., laptops, tablets, and smart phones) and literacy are factors that can lead to further marginalization. This is evident in the impact of COVID-19 on the country's public education and MSME sectors. To address these challenges, direct subsidies for students and loans for MSMEs are policy tools that can be explored.

Equally important is the development of new policies that would encourage investments in the country's digital infrastructure. An example of this is the recently signed amendments to the Public Service Act, which aims to open the telecommunications industry to new players. While incentives must be given to companies that will develop the underserved areas of the country.

3. *The Protection of the Country's Digital Infrastructure is a Must.* A digitalization strategy will be incomplete without considering the aspect of security. Therefore, the protection of the country's digital infrastructure should be part of the plan. However, it is important for our new leaders to realize that this issue has a multidimensional nature. On one end, it has a national security aspect, which examines threats and its impact on socioeconomic and political facets. Another part is the need to protect critical systems, which is concerned with protocols and the required technologies to secure these systems. The Philippines is off to a good start on this regard. The Data Privacy Act provides the regulatory framework on the protection of personal data. While the Cybercrime Law offers the law enforcement response to criminal acts perpetrated through digital means. However, this paper argues that a cyber defense posture is necessary to anticipate sophisticated digital threats.

4. *Address Gaps in the Current Policy Regime.* It can be argued that there is a need to harmonize the country's existing laws. Due to the

rapid environment changes, incremental improvements in the country’s digitalization goals will be counterproductive. Therefore, this digitalization agenda underscores the need for a new law that will chart a new direction for digital government, digital inclusion, and cyber defense. Table 5 provides a summary of the key points of the proposed digitalization agenda.

Table 5 . Digitalization Agenda 2022

KP1: Digital Transformation (Dx) in Government	KP2: Digital Inclusion (DI)	KP3: Protecting the Country’s Digital Infrastructure
<ul style="list-style-type: none"> • Ensure the efficient implementation of the National ID law. Emphasize the law’s intent to use the ID to access digital services • Pursue a systems integration and data governance strategy for crucial government services • Renewed implementation of RA 11032: Empower local governments through the development of integrated transaction systems 	<ul style="list-style-type: none"> • Explore and adopt new strategies that addresses learning and competitiveness challenges • Use of Digital technologies to get ahead of the virus • Encourage investments in the country’s digital infrastructure. 	<ul style="list-style-type: none"> • Whole-of-society approach • Need for a paradigm shift: From cybercrime to cyber defense • Strengthen policy regime: individual rights and addressing organizational vulnerabilities • Requires a law that will create the National Cyber Security Institute

PRINCIPLES

- Good Governance: Transparency, Rule of Law, and Efficiency
- Adopt a citizen centric view. Ensure equitable access to digital services
- Rightsizing the Bureaucracy: Optimal structure and new competencies.
- Whole of Society approach: Role of the Government, Private Sector, Civil Society, and the Academe among others

Source: Author’s Own

Key Point (KP) 1: Dx in Government

For the digitalization agenda 2022, Dx in government is presented as an important facet of the strategy. It underscores the ability of government to transform its

current transaction-centered, organization-specific services to an integrated, cross organizational platform that is citizen-centric. This means that services are proactive and are consistent with the needs of citizens. For instance, an integrated platform can provide standard services for overseas workers like passport and license renewal and access to banking services such as loans and investments using a government worker's portal. An additional example is a dedicated online service portal for MSMEs that provides registration and licensing services. Moreover, these practices if implemented would result in fewer physical transactions and eliminate opportunities for corruption. In addition, this would also require the identification of vital public services that would serve as flagship themes for its integration strategy. Examples of these themes are the following: (a) Education, (b) MSME, (c) Local government services, (d) Justice, law enforcement, and public safety, and (e) Labor and OFW concerns among others.

Another crucial aspect of the integration view is the need for a data governance strategy. This plan should address the issues concerning service integration like system interoperability, data standards, business process improvement, data privacy, and cybersecurity.

Key Point 2: Digital Inclusion

The importance of addressing societal deficits is one of the vital ingredients of the country's digitalization strategy. Real and persistent problems related to the digital divide must be immediately addressed. On the policy level, the Public Service Act has the potential of opening investments in telecommunications by encouraging the entry of new players in the sector. Another facet of this problem is the inequitable access to digital technologies. Due to economic and literacy limitations, a digitalization strategy must include investments in these marginalized sectors. Game changing investments in education and MSMEs can address the long-term effects of the pandemic on productivity and competitiveness. For instance, providing internet services, access devices, and developing digital content for teachers and students can address these challenges. Meanwhile, investments in the digitalization of public health can significantly improve the health seeking behavior of citizens. These can be done through the digitization of public health data, improved access to telehealth

services, as well as the development of digital content on public health concerns.

Key Point 3: Protecting the Country's Digital Infrastructure

Another urgent aspect of the agenda is the proposed shift from a cybercrime view to a cyber defense posture. Emerging practices in grey and asymmetrical warfare use cyberspace as the venue to launch politically motivated attacks. While the pandemic has shown the vulnerability of states to misinformation that could undermine public health activities, further examination of these events points to sophisticated and malicious actors, motivated by political or criminal intent. Therefore, these experiences underscore the importance of preparing the country against malicious and debilitating attacks.

This proposal considers these cyber-related risks as a non-traditional threat and elevates the issue to the level of national security. In other words, the current cybercrime paradigm is simply inadequate to deal with advanced persistent threats. This also implies that a cyber defense posturing requires the use of a proactive strategy that includes the following: (a) Periodic cybersecurity audits for government agencies and the private sector, (b) Standardized continuity and disaster recovery practices, and (c) The creation of a National Cybersecurity Institute that can monitor and address potential cyber-attacks among others.

Importance of Principles

Aside from being a two-edged sword, digitalization can also be a financial abyss. Thus, the proposed digitalization agenda provides a set of principles that can guide new leaders and policymakers with guideposts to ensure the primacy of the common good and the interest of the public. For instance, it is important to view digitalization as a “whole-of-society” and citizen-centric endeavor. This implies that the needs and demands of the various sectors of society must be prioritized. Furthermore, good governance principles such as transparency, efficiency, and adherence to the rule of law are standards that are non-negotiable. This also means that digitalization is an opportunity to redefine the bureaucracy and develop new competencies in the public sector.

Recommendations

Times of crisis are opportunities for change. Filipinos expect their leaders to embody hope by providing clarity of direction and ensuring stability. This means that future national leaders must be cognizant of the potentials and dangers of digitalization. This will allow these actors to navigate its complexity and achieve the goal of a resilient Philippines. Therefore, enumerated below are recommendations on how our new leaders and policymakers can jumpstart the country's journey towards digitalization.

1. *Develop a Philippine Digitalization Strategy and Roadmap.* This strategy contains the goals, phases, and critical milestones of the national digitalization effort. The strategy shall underscore the importance of digitalization in achieving its post-COVID development goals and adopting a whole of society approach. The strategy should also incorporate the need for Dx in government, address the digital divide, and the need to secure the country's digital infrastructure. Another important aspect of the roadmap is for the government to identify its flagship areas. Flagship areas can be viewed as economic sectors (e.g., MSMEs, OFWs, etc.) or services (e.g., Education, Public Services (local/national), etc.). This implies that the incoming administration must now identify its digitalization priorities and develop a public investment scheme to support the strategy.

2. *Convene an Executive-Level Task Force that will Oversee the Implementation of the Strategy.* This is envisioned to be a national task force and shall be chaired by the President and co-chaired by the secretaries of budget, finance, and ICT. The task force is expected to harmonize laws, policies, and programs into a coherent action plan. It will also serve as a venue for private sector participation and promote investments in digitalization.

3. *Convene a Digitalization Summit.* This event is intended to signify the commitment of the new administration in developing and implementing a digitalization strategy. It is also aimed at encouraging the participation of the private sector, civil society, and the academe among others to determine

the priority areas of the digitalization strategy. Moreover, this venue can be used to design programs that will have a significant impact on its key stakeholders.

4. *Support the Development of Communities of Practice (COP).* The creation of COPs will support the digitalization effort through R&D as well as the creation of innovation hubs among others. This will transform the country into an alternative for online and outsourcing services. This will also lead to the development of new competencies and skills that are crucial to sustain the journey.

5. *New Laws on Digital Government and Cyber Defense.* To sustain the digitalization strategy, the new administration must enact laws that will guarantee long term support and ensure its efficacy. For this purpose, a Digital Government Act can provide the needed legal framework for service integration, interoperability, and data governance in the public sector. The new law can also open the doors for the development of new competencies related to digitalization. In addition, a vigorous cyber defense posture is vital in ensuring the security of the country's digital infrastructure. For this purpose, the creation of a National Cybersecurity Institute can provide the country with the needed capabilities to address current and future threats.

¹ (CRS, 2021)

² (UN, 2021)

³ (WEF, 2020)

⁴ (WEF, 2020)

⁵ (UNDP, 2019)

⁶ (Pfannestiel & Cook, 2020)

⁷ (Gamberini, 2020)

⁸ (Reuters, 2021)

⁹ (Bordey, 2021)

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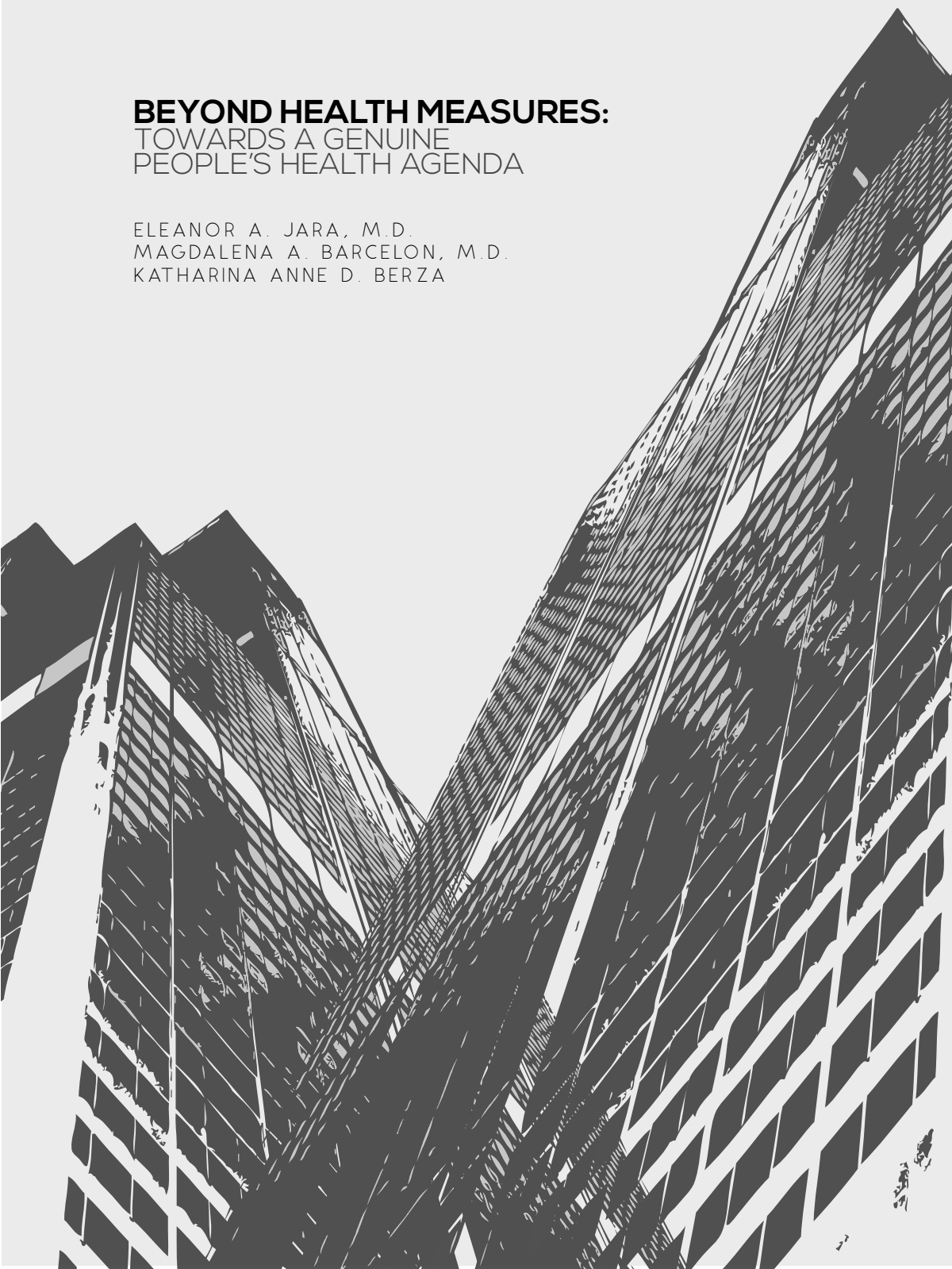
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BEYOND HEALTH MEASURES: TOWARDS A GENUINE PEOPLE'S HEALTH AGENDA

ELEANOR A. JARA, M.D.
MAGDALENA A. BARCELON, M.D.
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MAGDALENA A. BARCELON, M.D.
KATHARINA ANNE D. BERZA

Decades of socio-economic and political upheavals have had direct and indirect effects on people's health. As economic divides persist, wealth gaps continue to reinforce health inequities to a point that such predicament becomes a dangerous condition for millions of people in the Philippines and across countries. Health inequalities, in turn, embeds further income and wealth cleavages as they directly impinge upon the human capital of the poor and vulnerable population.

This paper aims to discuss how shrinking government prioritization on health furthers inequality and gaps that push the system to a breaking point long before the pandemic hit. Most importantly, the authors argue for a genuine people's health agenda that transcends health measures and present sound policy recommendations grounded on concrete analysis and measures that are actionable for advocacy, legislation, and the next government.

In essence, what the paper generally suggests is a profound rebalancing and recalibration of the Philippine health care system and policies vis-à-vis the health challenges toward a people-centered health program, namely, the increasing burden of health security, crisis in the health workforce, and the shrinking role of government in health-related matters.

The Current Philippine Health Care System and the Health Situation

The protection and promotion of the people's right to health is enshrined in the Philippine Constitution. To achieve this, the state must ensure that it takes upon itself the primary role of providing and ensuring that the public health system is available and accessible to the people, especially the vulnerable populations. If the government fails to put premium on public health, health care becomes the burden of an individual and leads to catastrophic health spending, preventable and curable diseases drive families into crisis, and the whole system is driven at the brink of collapse. However bleak the current public health system is during the pandemic, all is not lost if the country's decision-makers will choose to genuinely strengthen the public health system with adequate budget to provide free and comprehensive health for the people, especially the poor; a system that can weather all pandemics and value the people's health needs and overall well-being.

The Philippines has a long history of an ailing health system. Being a largely agricultural country with no basic industries, debt-driven with an import-dependent and export-oriented economy, the public health care system mirrors the poor socio-economic conditions and is at a constant crisis pushing it at the brink of collapse.

The issue of inaccessibility and more catastrophic health events are starker as government responsibility to public health shrinks. A social health insurance scheme did not provide the needed protection as a health market innovation aimed to deliver "health service packages" failed to resolve people's increasing out-of-pocket payments.

As a result, the current health system remains as it was decades ago: curative, specialist-oriented, urban-based, commercialized, doctor-centered, hospital-centric, "Western-oriented" and fragmented – unable to respond to the needs of the Filipino people then and more so during this time of pandemic.

Increasing Burden of Health

The onset of the COVID-19 pandemic further revealed gaping and grave weaknesses of a fragmented system with many people – the poor mostly – struggling to avail even the most basic of health services. Health financing

was brought to its knees by the perennial problems of corruption, especially in the Philippine Health Insurance Corporation (PhilHealth), and the high out-of-pocket spending. Even the funds supposedly intended for the COVID-19 pandemic were not spared as PhilHealth officials, as revealed in the recent Congressional hearings, were once again entangled in corruption issues through the “Interim Reimbursement Mechanism” scheme.¹

Filipinos still die of preventable and curable diseases.² In 2019, four out of ten deaths are not medically attended to by a physician, public health officer, hospital authority or other medical personnel and half of the recorded deaths occur at home.³ In the same year, household out-of-pocket (OOP) payment remains the largest among sources of health financing in the country, amounting to PhP 379.7 billion or 47.9% of Current Health Expenditure in 2019 while health spending financed through government schemes and compulsory contributory health care financing schemes came second at PhP 332.8 billion with 42.0% share. Meanwhile, voluntary health care payment schemes contributed PhP 80.0 billion or 10.1% share.⁴

In perspective, the World Health Organization (WHO) states that households that have OOP payments greater than 40% of the capacity to pay for health care falls under the definition of “catastrophic health spending”. Whereas, capacity to pay for health care is defined as total household consumption minus a standard amount to cover basic needs (food, housing and utilities).⁵

Most of the health expenditure remains with outpatient services and medicines that the present system does not account for, much less for preventive services. Close to 99% of Filipinos are not able to afford their prescription medicines because these are expensive.⁶ Hospitals remain the focus instead of communities, which are the true frontliners in facing the perils of any disease.

Crisis in the Health Workforce

Filipino nurses receive the lowest salaries among Southeast Asian neighbors⁷ and they do not receive all the benefits provided by the Magna Carta of Public Health Care Workers. Data from the 2018 Occupation Wages Survey (OWS), a survey conducted by the Philippine Statistics Authority (PSA) nationwide every two years covering establishments employing at least 20 workers, indicate that

the only health professionals receiving a monthly wage that is above the national average of PhP 18,100.00 as of 2018 level are the Specialist Medical Practitioners (PhP 54,090.00), Generalist Medical Practitioners (PhP 35,592.00), and Dentists (PhP 28,123.00). Nurses and midwives receive a monthly wage of PhP 14,942.00 and PhP 12,630.00, respectively. This level suggests that nurses and midwives in the country are living just above the poverty threshold, based on the 2018 per capita poverty threshold level for a household with five members.⁸

Without security, it is not surprising that the country remains one of the top exporters of doctors and nurses globally due to low wages, overwork, contractualization, and inadequate benefits. According to the Commission on Filipinos Overseas and the Philippine Overseas Employment Administration, there is an average of 12,976 human resources for health composed of doctors, nurses, and midwives who leave the country annually in 2017 alone. However, the numbers are thought to be understated because this is only based on official government channels; there are many informal ways to leave the country's porous borders. For example, the ASEAN Free Trade area allows Filipinos to move freely without a visa. Many leave as tourists to popular destinations such as Hong Kong and Singapore, but eventually find their way to a third country to work.⁹

Given the inequitable distribution of health workforce and services, increased development is needed in the countryside where majority of the population are underserved. The system of devolution has done little to address the widening inequalities in health care of our population. Data from WHO states that there are six medical doctors per 10,000 population in the Philippines. This is far lower than 10 doctors per 10,000 population (WHO, 2018), as well as in comparison to other Southeast Asian countries like Vietnam (8 per 10,000), Thailand (8 per 10,000) and Timor Leste (8 per 10,000). The comparable figures in developed countries such as Italy and the United States are 40 and 26 per 10,000 population, respectively. Together with a specialist-oriented system, less people actually receive the holistic care they need.

Shrinking Government Role in Health

Despite a significant number of legislations on health concerns – from the Medical Act of 1959 (Republic Act No. 2382), Generics Act of 1988 (RA 6675), Local

Government Code of 1991 (RA 7160), Magna Carta of Public Health Workers (RA 7305), National Health Insurance Act of 1995 (RA 7875), Philippine Nursing Act of 2002 (RA 9173), Universally Accessible Cheaper and Quality Medicines Act of 2008 (RA 9502), and the Universal Health Care Law of 2019 (RA 11223) – the country’s public health system is still unable to be fully responsive to the needs of the Filipino people and health workers in particular. For decades, the government has followed international prescriptions that led to continuous decrease in the budget for health, followed a policy direction of privatization of health care services through the government and its Department of Health (DOH), and implemented policies and programs that failed to address health inequities like the Devolution of Health Services (C. Aquino), Health Sector Reform Agenda (J. Estrada), FourMula One (G. Arroyo), Public-Private Partnership (PPP), Benigno Aquino Health Agenda – Pangkalusugang Pangkalahatan or Universal Health Care (B.S. Aquino), and the Duterte administration’s Philippine Health Agenda and *Kalusugan Para sa Lahat*.¹⁰ These laws and health flagship programs, however, did not change the paradigm of placing the burden of health expenditures on the individual rather than a primary government responsibility.

Consistent with the direction of renegeing public role in health, the government is still poised to corporatize 72 public hospitals nationwide. Corporatization is a scheme whereby government hospitals will depend less and less on allocations from the national budget by converting them into institutions that are financially and fiscally autonomous. In essence, corporatization is privatization. Privatization is the abandonment of the state’s responsibility to ensure people’s health and the operation of public health services and institutions as profit-oriented enterprises. Privatization comes in various forms: corporatization, PPP, user’s service fee schemes, revenue enhancement program, outsourcing, and outright sale. All of these will result to further inaccessibility of health care services.

Increasing commercialization of health services makes essential care even more out of reach of the common people. In essence, the government reneges on its responsibility to provide for the people’s right to health as enshrined in the 1987 Constitution and the 1978 Alma Ata Declaration where the Philippines is a signatory. With private hospitals outnumbering public hospitals (2:1),¹¹ the State must ensure the ability of people to seek proper consultations not only when cases are severe and requiring hospitalization. Health services should neither be an issue of privilege nor charity. This may be ensured by empowering communities that

are able to provide preventive services and assert their right to avail of curative services from public health facilities.

Likewise, there is a longstanding lack of support to public health care facilities at all levels from the barangay health stations to tertiary care hospitals. Of the country's 42,046 barangays, only 23,144 have health stations. However, many of these are not functional, with no health personnel and equipment allocated. Many municipal and city health centers, district and general hospitals, and even tertiary care centers, operate with non-functional X-ray machines, basic laboratory equipment and supplies, and emergency rooms without lifesaving drugs and life-support equipment, forcing patients to pay for these services in private facilities.

Strong public services can be seen in countries responsive to their people's health needs, such as Cuba, Taiwan, South Korea, and Thailand, who have improved the responsiveness of their health systems even before the pandemic. True enough, these are also examples of countries that have quickly contained the virus and risen above its neighbors in its statistics. Even with surges, they are quick to recalibrate their measures. Another factor is the health spending such nations commit to, which increasingly correlate to better health outcomes for the people. Even beyond the often-cited 5% prescription for health from the gross domestic product, governments must live up to its role of being primarily responsible for the health of the people.

A true universal health care must be free for all Filipinos guaranteed by the State and without the need for a national health insurance, which is prone to corruption. This care must also provide a comprehensive coverage for all stages of life and for as much illnesses as possible, regardless of whether they are inpatients or outpatients.

The Path to Change

Historically, fundamental changes in a country's health system have been envisioned and carried out as part of changes in the encompassing societal structure. As an essential part of the social political structure, the health system is embedded in the larger social system. The intertwining of socio-cultural, political, and economic systems of any given society constitutes the determinants of the status of the population's health and of the country's system of health care.

Thus, inequities in health care closely reflect broader and deeper social, economic, and political inequalities. This implies that lasting reforms in the health sector cannot be accomplished apart from similarly sweeping and thoroughgoing changes in the social and economic situation of a nation. Only the power of a united people, achieved through fervent and persistent collective actions in a multitude of arenas involving various sections of the population, transcending class and ethnic barriers, can overcome unjust socio-political structures. This will entail painstaking efforts mobilizing the grassroots in their communities and workplaces at the very base of society complemented by policy advocacy with positive outputs of legislative measures.

On a macro scale, for the Philippines, a shift in paradigm is needed to work out a people-centered development model that asserts national sovereignty and is completely biased for the people's interests. It promotes a long-term view towards the replacement of the profit-driven economic policies with that of direct social welfare for the common good of the entire nation. A people-centered economy develops domestic production through agrarian reforms, agricultural "modernization" and development, and upholds national industries. Necessarily, this development model will prioritize national interests and domestic needs over policies geared towards global competitiveness.

A social policy aimed at redistributing the benefits of economic growth to society's stakeholders, with an emphasis on the toiling masses of workers and peasants. It shall promote social justice and enhance the dignity and quality of life of the Filipino people. Social services shall become an integral part of the long-term social development of the nation. The provision of social services shall be strictly balanced between public and private health systems and providers, with the government assuming the leading role as the representative of people's aspirations. People's organizations and agencies, private institutions, firms, and individuals shall be mobilized toward a restructuring and redirecting of the delivery of social services.

Even as the efforts at national transformation are being consistently pursued, it may be fruitful at this point to identify the basic directions that the process of change will have to take and the hard policy choices that have to be confronted. The vision proposed is of a health care system that is scientific, comprehensive, owned and embraced by the majority of Filipinos, self-reliant, and responsive to the needs of the people.

Conclusion

The right to health is enshrined in various international human rights instruments to which the Philippines is a signatory of. The WHO declares that “The enjoyment of the highest attainable standard of health is one of the fundamental rights of every human being without distinction of race, religion, political belief, economic or social condition.”¹² The Universal Declaration of Human Rights (UDHR) of 1948 recognizes the right of everyone to a “standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care”.¹³ The International Covenant on Economic and Social and Cultural Rights (ICESCR) states the fullest and definitive conception of health as it recognizes the right of everyone to the “enjoyment of the highest attainable standard of physical and mental health and further requires that States have to ensure a minimum level of access to the essential material components of the right to health, such as the provision of essential drugs, and maternal and child health services. A country’s difficult financial situation does not absolve it from having to take action to realize the right to health”.¹⁴

A people-centered health care system catering to the needs of the poor should be founded on the basic tenets of equity, social justice, and people’s rights. All social services, goods, and facilities must be available, accessible, culturally acceptable, and of good quality. Thus, even as the government seeks to address the most urgent health problems of Filipinos today, it must also solve long standing issues to establish a free, comprehensive, and progressive health care system adhering to these universal principles.

Based on the principle that health is a fundamental human right, all Filipinos should have free access to quality health care with no payment at point of service. Public health care is a social service that must be freely provided to the people and accessible to all especially the working population and indigents. This means that Filipinos need not prove their indigent status or PhilHealth membership to obtain medical services in government-run health institutions and no fees will be charged against them before or after. Sufficient numbers of functioning public health facilities must be accessible both physically and financially with adequate health personnel complement. Appropriate resource and finance allocation should be established starting at the grassroots/barangay level, together with an efficient referral system. Holistic services extending across primary, secondary and tertiary care anchored

on the community-based health philosophy should cover health promotion and protection, as well as preventive, curative, rehabilitative, and palliative care.

The new health care system shall be comprehensive in scope with emphasis on promoting health and well-being and prevention of disease and ill-health. The foundation of this new health system shall be primary health care, strengthening full participation in people-based programs in the basic communities that are effectively linked to hospitals and other medical support systems. In particular, this requires the establishment of a system of health protection that provides equal opportunity for everyone to enjoy the highest attainable level of health; the right to prevention, treatment, and control of diseases; access to basic health services including essential medicines, maternal, child, and reproductive health, and provision of health-related information and education. In short, the government will deliver health services from “womb to tomb” covering primary, secondary, and tertiary level services and incorporating preventive, promotive, curative, and rehabilitative interventions. Health care services shall be integrated and coordinated with other social services like food production, education, and recreation. All these shall foster the complete physical, mental, and social wellness of its citizens. The welfare of the handicapped, elderly, orphans, and children shall be given special attention.

A progressive health system is based on the principle that people should be at the center of what government will and should do. The general direction of the country's health development should be anchored on the needs and demands of the people. Moreover, as the interest of the people is paramount, their full and meaningful participation is a necessary component in establishing and maintaining a forward-looking and responsive health care system. The people's energies and resources shall be harnessed to establish the necessary infrastructure for such needs as nutrition, mass health education, family planning, women's health, child care, occupational health and safety, environmental sanitation, pollution control, and disaster response. Global advances in health and new paradigms should be taken as adjuncts for development and not as blanket models to be followed. Sustained development and research must be pursued towards further enhancing the capacity of the people and the health sector. Based on the principle that health is the complete physical, mental, and social well-being and not just the absence of disease, health policies and programs should be designed to promote the highest level of health of the people. Socio-economic factors such as land, food, jobs, wages, housing, and socio-economic rights that affect health must be taken into

consideration and be developed together. This well-rounded policy has actually been adopted by the initial foundation of the health system when health and welfare were under the same department in the 1940s.

Recommendations

A People's Health Agenda

As expressed at the onset of this paper, a deep and expanded rebalancing or refocusing of our health care system is imperative to realize a people-centered health agenda. This approach renders a three-pronged angle to put in place long-term institutional reforms.

From a top-to-bottom perspective, the health responsibility is shouldered by the national government and agencies. The DOH should be strengthened by making the agency more accountable to our national health care system and emboldened so as to cater to the health needs of the Filipino people.

From a bottom-to-top perspective, community health centers and provincial health offices should also be strengthened and capacitated as they are the units directly dealing with the people's health concerns.

In between, the critical and facilitatory role of civil society, non-governmental organizations (NGOs), people's organizations, the academe, and responsible private sector enterprises should be recognized and institutionalized to ensure transparency, accountability, and social inclusion in the overall health care system of the country.

In this manner, a people-led approach to health should be achieved and all health stakeholders be considered. Only through the said approach shall we be able to effectively confront the health challenges toward a people-centered health program, namely, the increasing burden of health, crisis in the health workforce, and the shrinking government role in health.

People-centered National Health Care System

The development of a free, comprehensive and progressive national health care system will necessitate major shifts in policy direction and structural changes

taking into consideration resource distribution, and people's participation in health-related decision making at the national and community level. This entails a profound reversal in the policies of privatization, devolution, and the establishment of a nationally integrated system of health care which will be available to everyone without discrimination and economically accessible to all citizens. Foremost among these policies is the allocation of an adequate budget for health commensurate to the needs of Filipinos even beyond the acceptable 5% of gross domestic product especially during calamities.

Major legislative measures will be needed to actualize the envisioned health care system. The governance, organization, and structure of the country's public health system shall be reorganized into an integrated public health care system from the barangay, municipal, city, provincial, and regional up to the national level including specialty hospitals, diagnostic facilities and health programs. The general direction, policies, organizational and financial management, including budget of the health system, shall emanate from the national Central Office of the DOH.

The primary and overriding goal shall be the provision of free health services to all citizens as part of publicly funded social services highlighting the role of the government in ensuring that the right to health is attained by the people, especially the vulnerable populations, at no cost.

Health facilities and entities to be included are district and emergency hospitals, specialty hospitals and medical centers, diagnostic and research facilities, centers for research, and development and production of biologicals and medical tools, equipment, and supplies. These health facilities shall undergo transition measures to dissolve existing revenue-generating business-oriented corporate structures and transfer ownership and administration of operations to boards of trustees or regional health authorities established by the DOH in coordination with provincial or regional government units. To ensure the smooth transition within a reasonable period of time, all existing specialty hospitals and facilities shall undertake organizational audit, strategic assessment, and planning to identify gaps and weaknesses in the performance and implementation of their mandate, mission, and goals and recommend the necessary reforms for improved provision of health services.

These health services shall include outpatient and inpatient clinical services including all types and modalities of health promotion and maintenance, disease

prevention and treatment covering curative, rehabilitative and palliative care. All public health institutions shall implement a holistic, scientific, biopsychosocial, culturally acceptable, community-based approach utilizing modern, traditional, complementary, and alternative modalities of health care.

Equity in Health Resources

Developing and strengthening the public health care system in the provision of health services is the key to achieving equity and access in health. This public health system must be anchored on the community-based approach to health care from the barangay to the town/city, district, provincial, regional, and national levels. The priority for providing free health care services and medicines must be geared towards the neediest sections of the population - the impoverished sick, aged, disabled, women, and children.

The emphasis of health care must be on disease prevention and promotion of general health, wellness and environmental sanitation through mobilization of the people in major mass health campaigns on health education, nutrition, immunization and environmental sanitation. The formal health sector must be reoriented to assume leadership by practice and example emphasizing horizontal inclusive relationships with the people in their catchment areas rather than vertical hierarchical control of health programs and activities.

The state shall ensure the provision of equal and timely access to health education, basic preventive, curative, rehabilitative, palliative health services. Various levels of health facilities shall ensure regular screening programs for all stages of the life cycle. All public health facilities shall ensure appropriate and timely treatment of prevalent and endemic diseases, illnesses, injuries and disabilities, geriatric and other forms of specialized care, preferably at community level. Public hospitals and health centers shall provide essential medicines and modes of treatment that are free, safe, efficacious, accessible, and culturally acceptable. All public facilities shall ensure appropriate mental health education and treatment, psycho-social support services and care.

In order to provide a public health system anchored on community-based approach to health care that is strengthened and developed from the outermost barangay to the national center, the necessary infrastructure and components

of the health system must be set up and operationalized at different levels. This means setting up and operationalization of 18,902 new barangay health stations and rehabilitation of 23,144 existing barangay health stations.

At the municipal level, this entails the establishment of 1 primary care facility within 30 minutes of travel per 20,000 population size. At the district level, Level 1 or level 2 hospitals with a minimum bed-to-population ratio of 2.7 per 1,000. For the provincial or regional levels, there must be a Level 3 hospital with a minimum of all Level 2 capacity including but not limited to the following: teaching and/or training hospital with accredited residency training program for physicians in the four (4) major specialties namely: medicine, pediatrics, obstetrics and gynecology, and surgery; provisions for physical medicine and rehabilitation unit, ambulatory surgical clinics, dialysis facility, blood bank; DOH-licensed tertiary clinical laboratory with standard equipment/reagents/supplies necessary for the performance of histopathology examinations; DOH-licensed level 3 imaging facility with interventional radiology.

For adequate population coverage there must be one (1) general hospital bed per 1,000 population (1:1,000). The number of beds that may be put up shall be based on the health care needs of the population. The hospital shall be at most one (1) hour away by the usual means of transportation at most parts of the year. Services will include clinical services (family medicine, pediatrics, internal medicine, obstetrics and gynecology, surgery), emergency services, outpatient services, ancillary and support services such as clinical laboratory, imaging facility and pharmacy. Provision of adequate medicines, supplies, equipment, and highly specialized medical equipment such as x-ray, CT scan, MRI, and medical linear accelerator (LINAC) must be ensured based on needs identified by the Department of Health.

The establishment of specialty hospitals and other health facilities shall be based on population needs. These may include Diagnostic and therapeutic facilities such as laboratories for newborn screening, drug testing, hematology services, radiologic and nuclear medicine facilities, Psychiatric and Custodial Care facilities, nursing homes, treatment and rehabilitation centers. There is still the need to further develop, strengthen and broaden the services provided by the existing tertiary and specialty hospitals, such as the Philippine General Hospital, Research Institute for Tropical Medicine, Lung Center of the Philippines, Philippine Heart Center, National Kidney Institute, Philippine Children's Medical

Center, Dr. Jose Fabella Memorial Hospital, Philippine Orthopedic Center, National Center for Mental Health and others.

Health facilities at different levels must provide effective and efficient programs aimed to eliminate tuberculosis, malaria, dengue, HIV/AIDS and other infectious diseases as well as chronic non-communicable diseases (cardiovascular diseases, diabetes and mental illness) and emerging global diseases. Timely and comprehensive health services must be provided to communities affected by disasters. Policies, programs and projects that are hazardous and not appropriate to the needs of the Filipino people.

Strong Health Workforce

To address the crisis in the health workforce, there must be a clear health human resource development plan based on the health needs of the Filipino people. This should ensure equitable distribution of health personnel, resources, and funds throughout the archipelago prioritizing unreached and underserved areas.¹⁵ The State should ensure that health sciences education is nationalist, scientific, service-oriented, people-centered, and free for deserving students from underserved provinces. Health sciences education nationwide must serve the needs of the public health system and the government's overall plan for development, training, and deployment of health workers in the country to approximate the ideal population-to-health personnel ratio. For the immediate needs of the country, there must be 2 doctors and 2 dentists per town/city in all 1,634 towns and cities, 1 nurse and at least 1 midwife per barangay, and at least 1 sanitary inspector per town.

To ensure an adequate number of health personnel for the country's health system, the government must initiate measures to stop the brain drain of health professionals and the labor-export policy. These should include the review, reform and implementation of existing laws on salaries, wages and benefits to provide just compensation, job security, optimum working conditions, and professional growth to promote and uphold the interest and welfare of health workers. The practice of contractualization and job-order employment in public facilities must be stopped and all contractual employees regularized. The rights and welfare of all health workers must be protected, including the right to unionize, to enter

collective bargaining negotiations, and the right to strike. Protection of all health workers is a responsibility of the state whether in the public or private sector, including those from NGOs and people's organizations, especially those working in areas of armed conflict. Their right to serve must be upheld and respected under all circumstances. The role of traditional birth attendants and community health workers in providing community-based health services must be recognized and respected.

Genuine Pharmaceutical Industry

The DOH shall come up with an updated inventory of health technology needs, such as biologicals and pharmaceuticals, medical supplies and equipment, diagnostic technology sources and supplies. The DOH together with the Department of Science and Technology can identify the country's appropriate technology that can be researched and developed through funding by the Philippine government.

To ensure that all Filipinos shall have access to quality essential medicines a National Pharmaceutical Industry shall be established, it will entail the development of technology that will extract and refine raw materials and chemicals for medicine production; strengthening the local production of medicinal plants, and improve further the potentials of herbal medicine and natural components that can be found in the Philippines. This includes independent health research projects that are beneficial to the Filipinos, such as herbal medicines and other traditional practices, development of vaccines, food technology and other appropriate technologies.

The DOH shall adopt a system of selective parallel importation of essential medicines that are more affordable and have gone through extensive government testing for safety and efficacy; and compulsory licensing that will permit the sale and manufacture of needed medicines notwithstanding the existence of their patents. The value added tax on all essential medicines should be removed. To encourage the growth of local pharmaceutical manufacturers, and expand the local production capacity, they shall be entitled to fiscal incentives.

The government, through the Food and Drug Administration and aligned agencies, shall further strengthen their regulatory mandate to facilitate access

to quality, effective and safe health technologies. Dumping of unsafe, inessential health products, and equipment shall be strictly monitored and prohibited.

The imposition of global lockdowns due to the pandemic has further revealed the country's dependency on imported pharmaceutical ingredients, raw materials and even finished dosage forms. The unprecedented shortages of vaccines, medicines, and other health technologies due to the disruption in the production and the unexpected global demand are lessons that should be addressed by the government. In particular, the DOH shall strengthen its supply chain planning and management in consultation with different stakeholders. By providing adequate support and incentives, the government will be in a better position to encourage local manufacturers of essential medicines and health technologies, as well as all stakeholders of the pharmaceutical supply chain, to ensure the availability and affordability of health products.

The DOH shall ensure the continuing research, recognition, promotion, and protection of the concept and practice of traditional and complementary medicine in all its policies, programs and services. Policies and agreements involving the appropriate DOH agency shall ensure the recognition of community property rights of traditional practice and healers. The DOH shall conduct programs to reactivate the current practice, and upgrade the skills of these practitioners and healers.

Beyond Health Measures

The ICESCR mandates that States must protect the right to health by ensuring that all persons within their jurisdiction have access to the underlying socio-economic and political determinants of health. These include addressing factors such as foreign domination of the country's economy, landlessness, lack of jobs, low wages, lack of food security, housing, and other social services. Thus, a host of other interventions need to be undertaken for the full realization of the right to health. These include measures to provide jobs and living wages, implement genuine agrarian reform and ensure food security; adequate shelter and housing for the urban poor; timely, adequate, and appropriate social services. There must be strategically planned programs and services to mitigate the effects of climate change. Human rights must be upheld and protected, human rights violators

prosecuted, and indemnity provided to victims of human rights violations.

Foreign policy reforms must include a re-examination of treaties and agreements that are inimical to a people-centered health agenda. As such, other political and economic alternatives in the form of national and local legislation and diplomatic innovations will be sought to ensure that funds are rechanneled to social services like health.

Overall, a people's health agenda premised on the right to health can only be realized through a national, integrated, and comprehensive health system that is publicly funded, freely accessible to all citizens, and firmly based on the fundamental principles of equity, social justice, and people-centered development.

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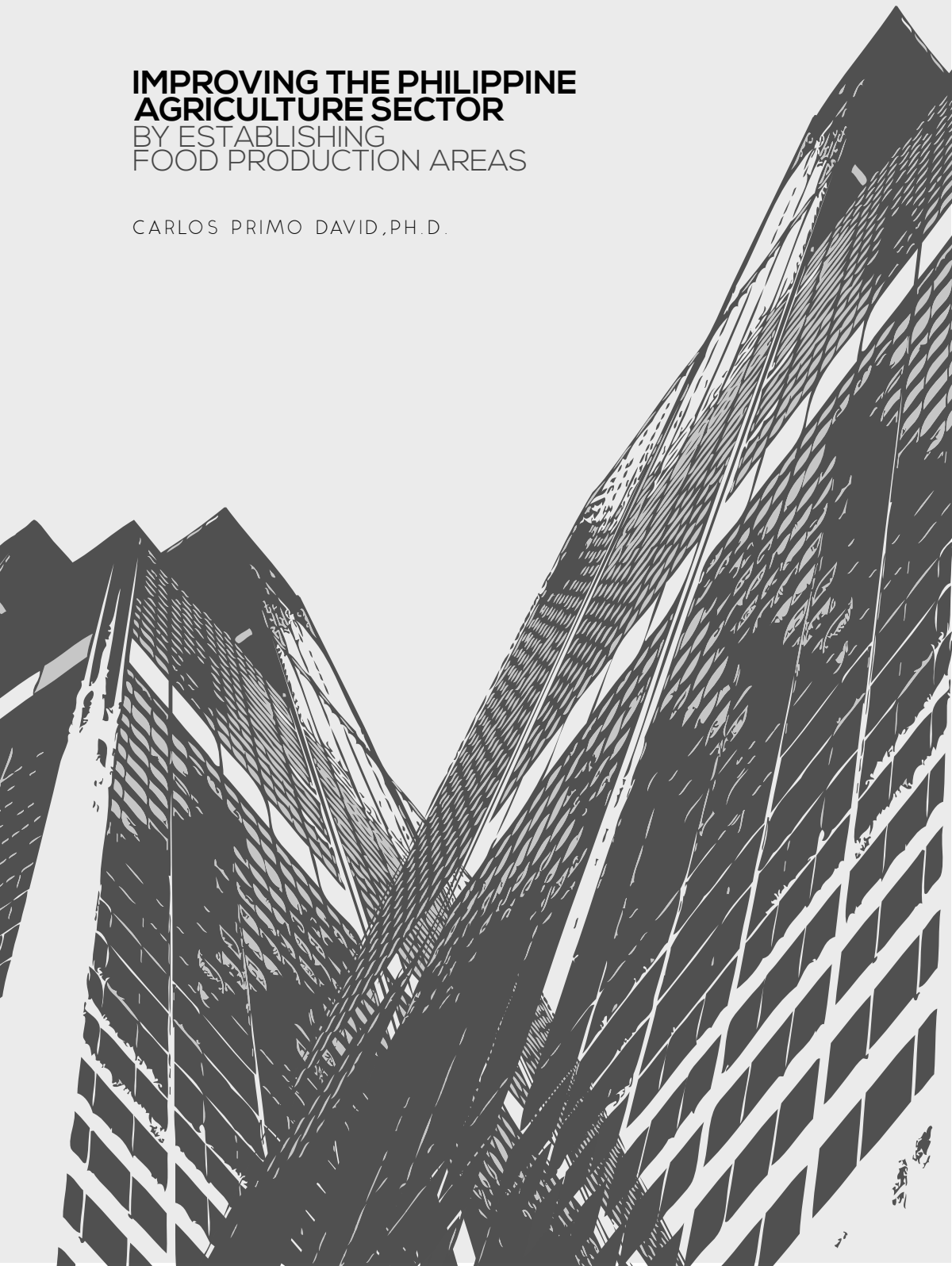
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IMPROVING THE PHILIPPINE AGRICULTURE SECTOR BY ESTABLISHING FOOD PRODUCTION AREAS

CARLOS PRIMO DAVID, PH.D.



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Freedom from hunger and malnutrition are fundamental human rights (adopted during the World Food Conference in 1974). However, there are systemic risks to achieving long-lasting food security in every nation which compromise our ability to provide nutrition sufficiency and affordable food to everyone. The problem lies in the overall food supply-demand balance that is characterized by a depleting food stock and increasing demand from a rapidly increasing global population. This situation is further exacerbated by factors that shift the supply-demand balance and events that disrupt the food supply chain. Locally, there are existing barriers to farm productivity, which prevent food production at a cost lower than that of imported goods.

The interconnectivity of commodities through global trade means that disturbances in production in one country can have a significant impact on food prices everywhere else. This happened during the global food crises in 2008 and 2011. Researchers have pointed to several causes that triggered these two events including increased world oil prices (Kilian, 2008), competition between food and biofuel production (Bilgili et al., 2020), extended droughts, and plant and animal pathogens in major food-producing countries. More recently, the global food supply chain has been disrupted by the COVID-19 pandemic. A decrease in demand usually means a dip in prices. However, the opposite happened as a result of the pandemic: though demand generally went down during the pandemic, commodity prices increased. There were notable increases seen in the 2020 global prices of maize, wheat, and rice, as these commodities recorded 43%, 12%, and

10% increases from the previous year, respectively (World Bank, 2021). This price increase was compounded by the fact that farm productivity decreased, due to the variability of temperature and precipitation brought upon by climate change (Leisner, 2020). Productivity was likewise affected by the competition among the domestic, commercial/industrial, and agriculture sectors for water in water-scarce nations. Finally, the underlying issue is still the systemic imbalances in global food production, in particular the neglected investments in agriculture in many developing countries (von Braun, 2011). Ironically, it is in these countries where global food crises are most felt because of their lower capacity to address such problems (UNCTAD, 2008).

The Philippines, a net importer of goods, had a trade deficit of USD 161.8 billion in 2020 (PSA, 2021). A significant portion of this deficit lies in our importation of food products. Many economists point to development missteps in the past that proved to be detrimental to the Philippine agriculture sector. One of these missteps is the rapid transition from an agriculture-based to a manufacturing-based and later to a service-based economy (Irwin, 2021). It was unfortunate that our leaders in the 1950s and 1960s equated an agriculture-based economy as being backward and subservient to western countries. Industrialization was seen as the key to national development. As one renowned statesman put it: “An industrial nation is a prosperous and, hence, a strong and dominant nation; while an agricultural nation is a poor and, consequently, a weak and dependent nation.” (Recto in the Recto Reader, 1965). The push for an industrialized economy immensely damaged farming in the countryside. This shift led to lower investments in the agricultural sector. There was also a mass migration of people to urban centers to gain employment in the many factories that were built as part of industrialization. This shift in economic focus also led to a shift in cultural mindset: farming and agricultural work are viewed as occupations of a lower form, inferior to more modern, industrialized undertakings. This skewed view persists to this day.

Another economic development construct, import substitution, was also very popular in the 1960s. The implementation of import substitution proved to be disadvantageous to developing nations (Irwin, 2021). The Philippines, for instance, chose to concentrate on exporting just a few already established commodities. In the process, we also began our dependence on imported goods. There have also been trade agreements, pre-allocated import quotas, protected

monopolies, and subsidized foreign exchange made available to farms that catered to specific crops. All of these efforts, unfortunately, led to unforeseen, long-term economic consequences for our country (Bautista, pers. comm.). This same path was also taken by our ASEAN neighbors, but they were quick to realize the ill effects of import substitution and pivoted to export expansion. This export expansion was coupled with the development of their agricultural sector, not only to satisfy local consumption, but also to export to other countries. In Vietnam, this move was outlined in the Doi Moi economic reforms of the 1980s (Edwards and Phan, 2013). Thailand more or less did the same thing during the same period, deciding to shift from import substitution to export expansion. Thailand strengthened its internal food stock before embarking on industrialization in the 1990s (Akrasanee and Tambunlertchai, 2015).

The United Nations Food and Agriculture Organization (FAO) (1996) defines food security as having people at the individual, household, regional, national, and global levels, have physical and economic access to food at all times, to meet their dietary needs and food preferences in maintaining an active and healthy life. Using indices on food availability, affordability, and quality, the Philippines ranked third to the lowest in Southeast Asia (73rd globally) in food security (GFSL, 2020). Moreover, the FAO definition emphasizes on the economic ability to buy food as this essentially reduces poverty. In truth, internal food reliance not only provides food security but also helps create jobs that in turn uplifts the rural economy. Here lies another great irony, as our farmers and fisherfolk who provide the nation with food, also post the highest percentage of poverty incidence of any other sector of society at 31.6% and 26.2%, respectively (PSA, 2020).

In 2017, the Philippine government launched the Inclusive Innovation Industrial Strategy (i3S) which included agribusiness as one of the main pillars of the strength of food manufacturing. Food manufacturing is the largest contributor to the manufacturing sector output (DTI, 2017). The selected priority crops to be linked directly to processing include already established sub-sectors: rubber, coconut, mangoes, coffee, and bananas. However, the same strategy espouses the competition-innovation-productivity relationship where a highly liberalized market environment (due to trade liberalization and removal of investment barriers) leads to more competition. With an unprepared local agriculture sector, this may very well backfire on us once again.

The productivity of our local farms in the countryside is becoming worse. This

is substantiated by the fact that the Philippines continues to have lower yields in rice compared to other ASEAN countries, despite majority of the government support disproportionately goes to rice farmers. Another factor that contributes to our low farm productivity is the poor integration of farmers in the food value chain (World Bank, 2020). Moreover, there is little support for farmers to move up the value chain and venture into food processing and direct-to-consumer sales.

One thing is certain: there is a definite need to revive the agriculture sector. This revival should not be viewed as strengthening foreign trade per se, but by directing efforts to better national food security and uplifting the rural economy. The basic premise taken by this paper is that local food production is always better than importation as long as the former is competitive in price compared to that of foreign goods. It is an attempt to evaluate agricultural produce in the context of foreign trade, local farm productivity, and consumer demand. It is also a call to investigate external drivers such as land availability, local farm dynamics, disruptive effects of climate change on local agricultural productivity, and prevailing perceptions of agriculture. This paper utilized foreign trade information and data from the Philippine Statistical Authority's Agricultural Indicators System and have also considered farm area planning, trends in cultivation and food production in other countries, value chain analysis, and sustainable practices in agriculture in formulating my recommendations. This paper endeavors to provide a fresh look at the agriculture sector and offer alternative strategies that will hopefully lead towards higher productivity in the sector, reduce poverty in the rural areas, and improve national food security.

Impacts of Climate Change on Agriculture

Philippine agricultural production is adversely affected by warmer temperatures and by highly variable rainfall distributions that were observed in recent years and which are projected to continue due to climate change. Agricultural products, particularly rice, are very sensitive to water and temperature stress resulting from dry spells or heavy rainfall events (PHILCCA, 2018). A 10% decrease in rice grain yield is calculated for every one-degree increase in average temperature (IRRI, 2003). Moreover, the Philippines is located in the West Pacific Ocean where an average of 48 tropical cyclones form each year, 30% of which make landfall in

the country (David, et al., 2013). The latest Climate Change Assessment Report points out that warmer sea surface temperatures generally provide more energy for storm development and thus favor even more intense tropical cyclones in the future (IPCC, 2021).

Climate-related risks have significantly worsened in recent years due to climate change. The GermanWatch 2021 Global Climate Risk Index (CRI) report, which is an annual analysis of to what extent countries have been affected by the impacts of weather-related loss events, found that out of the 180 countries assessed, the Philippines ranked as the 17th riskiest in terms of disasters in 2019. However, in terms of the average CRI from 2000 to 2019, the Philippines ranked as the 4th riskiest. The CRI also noted that island states such as the Philippines are at higher risk of sea-level rise, cyclones, and earthquakes. The Asian Development Bank (ADB) estimates that these natural disasters result in economic losses equal to 0.7% to 1.0% of the country's gross domestic product (GDP) every year. This includes around PhP 133 billion (USD 2.7 billion) from tropical cyclones. From 2010 to 2020, the Philippine Department of Finance (DOF) estimated that 98.2% of the economic losses or PhP 515.51 billion (USD 10.6 billion) were due to climate-related hazards. Although the DOF estimates a much lower economic loss and damage amounting to 0.5% of the Philippines' annual GDP, we can still expect this to increase through the years due to the increasingly unpredictable and unavoidable changes in the climate.

According to the Philippine Bureau of the Treasury (BTr) 2021 Fiscal Risk Statement (FRS), from 2018 to 2019, the total damages in agriculture, mainly rice and corn, which are considered as the country's 1st and 2nd staple food crop, respectively, were recorded at PhP 7.96 billion, damaging 277,890 has. of rice farms and 133,007 has. of corn planting areas. The FRS also noted that based on a report of the Department of Agriculture (DA) in August 2019, the estimated agricultural damage of El Niño in 2019 amounted to PhP 10.59 billion. This event affected all regions except the National Capital Region (NCR). It also forced a total of 51 local government units (LGUs) around the country to declare a State of Calamity.

The DOF reported that based on the preliminary 2022 FRS, the Philippines incurred around PhP 74.75 billion (USD 1.49 billion) worth of damages from disasters in 2020 alone. A big chunk of this amount is due to the three consecutive typhoons in the latter part of that year, which collectively caused

damages amounting to PhP 69.02 billion (USD 1.38 billion). Similarly, The World Bank (WB) reported that the largest cumulative cost of destruction by the consecutive typhoons was most visible in infrastructure and agriculture, totaling to approximately PhP 30.76 billion (USD 615.2 million). In 2021, the Department of Agriculture (DA) reported that the country lost about PhP 2.1 billion in just a few days of tropical storm Maring's landfall on Philippine territory. The DA added that the majority of the agricultural products affected were rice and corn.

Generally, climate change has a domino effect on the agriculture value chain. It has a huge potential to disrupt local farmers' agricultural productivity which, in turn, affects the consumption and food security of the country. Moreover, climate change's global effects not only disrupt supply and demand, but also influence the global commodity market price fluctuations.

It is imperative for the country to immediately develop and implement climate change adaptation measures specifically geared to build a climate-resilient agriculture sector. These measures should advance production and growth in the sector despite the projected climate conditions. Working on local agricultural productivity and national food security vis-à-vis the impact of climate change is where government and stakeholders could focus their coordination and collaboration. If done strategically, this government-industry interaction can address the urgent and pressing climate-induced challenge of food availability and affordability for consumers and the profitability of farmers. The general strategy should result in sustained or even increased production despite changes in the climate. This includes the use of crop varieties that are more resilient to extreme conditions, the use of screen houses for vegetable production, and the promotion of drip irrigation and other strategies that work well with limited water supply.

Foreign Trade Analysis

The characteristics of our foreign trade reflect the changing domestic demand for food as well as a measure of our ability to provide affordable, quality food for the country. In this paper, we shall concentrate on our food importation profile to see which commodities are not being sufficiently produced in our country. Of course, we continue to balance our importation with exports of our cash crops: coconut, pineapple, and bananas.

Table 1 . Imported Commodities In Million USD

Commodity	2016	2017	2018	2019	2020
Beef	334.99	404.77	439.28	415.10	361.55
Pork	130.52	171.91	195.27	169.19	128.24
Chicken	0.27	0.11	2.02	2.23	0.96
Processed Meat	276.79	529.79	479.05	551.88	486.94
Potato	8.87	9.12	10.80	11.40	12.72
Onion/Garlic	37.51	24.19	42.48	28.23	40.59
Peas	15.85	20.76	22.02	24.86	29.81
Mushrooms	0.30	0.59	1.55	2.64	2.82
Preserved Vegetables	232.72	301.69	286.9	347.89	290.83
Dried Vegetables	19.22	23.12	21.74	24.18	18.97
Apples	176.02	178.32	187.03	211.37	300.55
Citrus	63.42	72.80	95.41	127.40	138.81
Grapes	56.89	60.04	71.04	118.90	138.81
Wheat	1,040.76	1,303.52	1,682.64	1,847.09	1,573.21
Baking Flour	386.09	413.04	432.91	504.29	583.96
Milled Starches	235.28	240.59	281.10	300.29	226.41
Rice	210.67	357.72	736.65	1,144.67	862.01
Corn	201.93	129.09	268.11	158.68	212.52
Sorghum	5.66	4.33	6.53	8.08	17.15
Seeds/Soy	17.02	22.49	24.50	50.99	38.73
Salt	24.45	26.97	23.37	36.00	28.83
Coffee	83.52	58.54	91.45	74.06	81.13
Tea Leaves	6.08	7.07	7.67	11.69	8.14
Other Food Preparations	1,291.41	1,420.85	1,464.58	1,717.47	1,587.63
Milk	491.41	495.85	507.60	624.03	635.01
Beverages/Spirits	472.63	563.10	612.82	661.30	515.99
TOTAL	5,820.27	6,839.79	7,994.53	9,173.91	8,353.75

Source: Author-generated table

Included in the top 25 importations in 2020 are food categories under cereals, food & live animals, dairy products, and fruits & vegetables. Total food importation in 2020 amounted to USD 8.35 billion. This is 9% lower than the 2019 numbers for the same commodity. This decrease in food importation is

interpreted as a result of lower demand during the COVID-19 pandemic. Before 2020, our importation of the same commodities has been rising by an average of 16% each year. Note that any of the commodities in Table 1 have a local market demand in excess of USD 2 million/year (PhP 100 million/year). For example, the fastest-growing imported commodity are mushrooms, with a local supply deficit worth USD 2.8 million/year in 2020.

The following are three observations made after looking at our food importation data in more detail:

1. Processed foods (processed meat, dried and preserved vegetables, extracts/other food preparations and beverages) dominate our importation requirements.
2. Importation of wheat, flour, and starches totaled USD 2.4 billion in 2020 and increases at an average rate of 10% per year; and
3. Importation of cool weather fruits (USD 610 million in 2020) is increasing at a rate of 15% to 28% a year.

Food processing is not only a means of value addition but also a strategy for preserving commodities produced that are in excess of its fresh commodity demand. Food processing also indirectly encourages overproduction which results in lower unit costs. Priority should be given to agricultural products that can be processed through canning, drying, and/or preparation as powder or sauce. For example, tomato sauce/paste primarily imported from China reached USD 39.7 million in 2019 even if we are self-reliant on fresh tomatoes. Opportunities are also present for the country's established crops such as various processed coconut products and fruit preserves (Javier, pers. comm).

Expanding opportunities for processing crops may lead to guaranteed bulk purchases. Processing opportunities will also lessen or eliminate instances when farm produce is simply discarded as waste or sold at a loss due to a temporary oversupply. Oversupply should also result in lower market prices of fresh produce and may lead to a shift in the dietary preference of Filipinos. Oversupply could lead Filipinos to eat healthy if the choice of crops to "overproduce" is done strategically. Such a strategic selection could be, for instance, focusing on food

that solves our main dietary deficiencies: sources of protein, Vitamin A and Iron. Overproduction may lead to lower prices for protein-rich vegetables (e.g., soy, lentils, and microgreens like spirulina, and wolffia), potatoes, broccoli, spinach, and carrots.

Another observation that can be made from the food importation data is that our diet is changing. The country is 100% reliant on wheat and flour importation, which is increasing at a rate greater than 10% each year. Wheat is more suited to be cultivated in temperate and sub-tropical climates. Like rice, wheat requires huge tracts of irrigated land to be profitable. Wheat is used for bread, while flour is used for instant noodles. The local demand for both bread and instant noodles is large and increasing. And yet, it is not economically viable to produce wheat and flour locally, given the conditions for growing them that were stated earlier. Instead, we should step up the cultivation and processing of flour alternatives such as cassava and arrowroot flour both for local and foreign markets (we are currently a net exporter of these commodities). These alternative flour sources have been recommended as wheat flour substitution by FAO.

Grains is our main dietary source of carbohydrates. A conscious plan to diversify sources to include potatoes, beans, corn, and other grains should be pursued. This can be carried out by cultivating crops that are less prone to drought and the ensuing decrease in rainfall due to climate change. We should also take advantage of crops like beans, soy, and adlai which offer a higher protein content than rice.

Cool-weather fruits such as apples, citrus fruits, and grapes were previously only available and therefore popular during the Christmas holidays. However, given the steady flow of these fruits from China, they have become available in the country year-round. These fruits are deemed not traditionally part of the regular basic diet of the lower and middle class but have become aspirational for many families. Yet, their availability and affordability increased their popularity even in the lower classes. The clear demand for these fruits and other cool-weather fruits should spur investments in cultivating premium fruits like grapes and oranges. These fruits are now locally grown and available from farms situated in lower temperature areas at a limited scale.

Similar to the importation of fruits, we should pay close attention to the increasing importation of vegetables. Except for potatoes, garlic, and onions, we are self-reliant when it comes to vegetables required in local cuisines (e.g.,

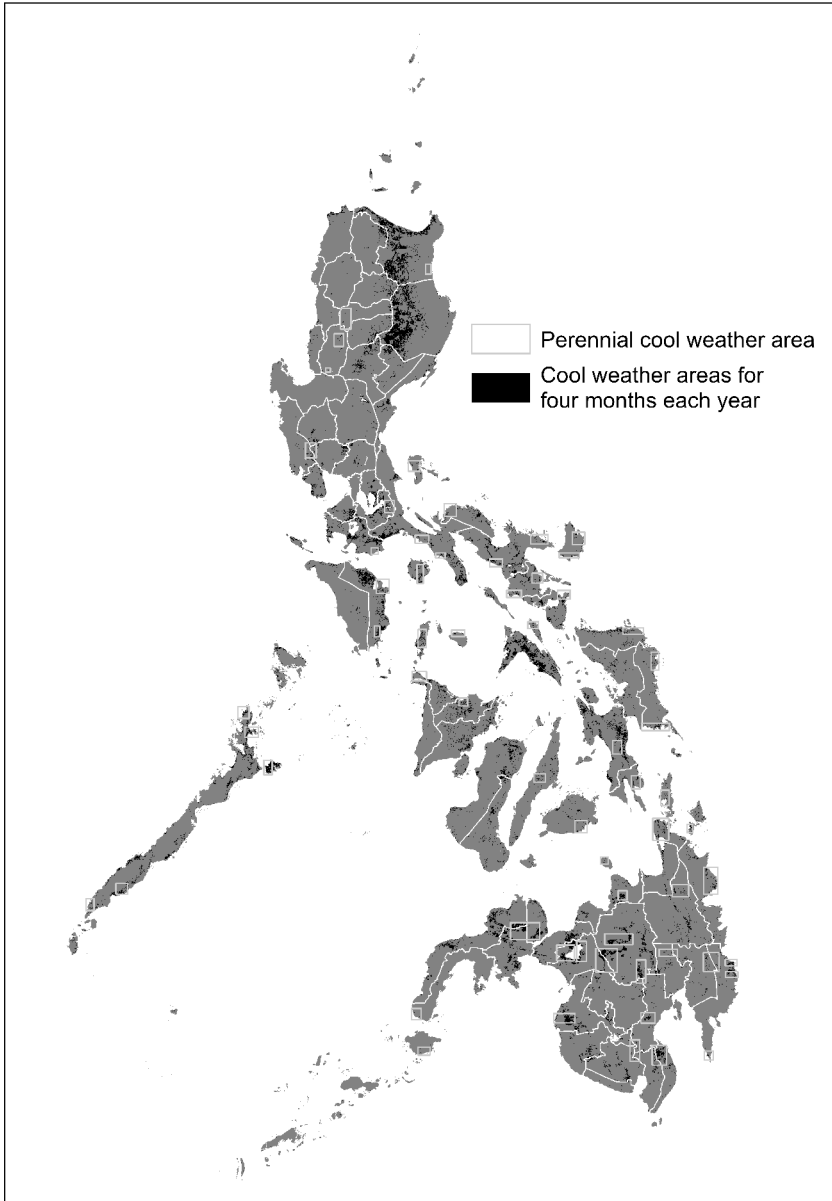
carrots, cucumbers, eggplant, tomatoes, okra). Garlic and onions had a combined importation of USD 40.4 million in 2020, most of which came from China. Because of the scale of production, farmgate prices in China are PhP37.50 and PhP 9.90 per kilogram of garlic and onions, respectively as opposed to PhP 87.30 and PhP 39.70 in the Philippines (FAO, 2021; Produce Report, 2021). The price differences are just too wide, making it impossible to compete against importation. On the other hand, our potatoes are sourced from Australia and the United States whose farmgate prices are within reach if local production is improved. Finally, in the last two years, the Philippines also started importing even highly perishable vegetables like cabbage, spinach, and lettuce which are cool-weather vegetables. These highly perishable vegetables require higher transport costs. Here lies an opportunity for local production to be more competitively priced against their imported counterparts: simply produce in larger volume and increase production efficiency.

Strategic Farm Area Development

As discussed in the previous section, cool-weather crops constitute the bulk of our food importation. Figure 1 shows the map of the country with agricultural/disposable areas that have relatively cool weather. The blue pixels represent less than 27°C daytime temperatures during the cool months of December to February. On the other hand, the areas within the blue boxes represent areas whose daytime temperatures are less than 27°C even during the warm months of March to May. Notably, the large swaths of land covering Northern Luzon (Isabela, Quirino and Cagayan) and the year-round cool climate in Nueva Vizcaya, Benguet, Ifugao and Mt. Province. Very near Metro Manila are pockets of year-round cool weather microclimates in Gen. Nakar, Quezon, Mt. Natib in Bataan, Mt. Banahaw in Batangas, and Paete, Laguna. In the Visayas and Mindanao, large cool weather areas are found in Kanlaon in Negros, Lanao del Sur, Mt. Kitanglad in Bukidnon, and Mt. Apo in Davao Oriental. It is noteworthy that the areas mentioned are still not fully cultivated.

The idea being put forward is to concentrate efforts in growing cool-weather vegetables in these areas from December to February. Priority is given to crops that can be stored longer (e.g., potatoes, carrots), processed (e.g., peas, chili, spinach,

Figure 1 . A Temperature Map of the Philippines' Agricultural Lands



The shaded areas represent farmlands with cool weather conditions for 3-4 months each year while those areas in boxes represent year-round cool weather conditions.
 Source: Author-generated figure

tomato varieties for tomato paste), and have high retail value (e.g., broccoli, cauliflower). Processing plants and cold storage facilities should be located near these farms. Farm-to-market roads will be beneficial but not as much as a local bulk buyer like a processing plant. For year-round cool-weather microclimates, cool-weather fruit trees and vegetables mentioned with high demand should be grown. These are extremely important farm areas moving forward. Lower value crops like rice, cassava, corn, coconut, and sugarcane should not be the major products in these areas since these can be cultivated in low-lying areas with higher daytime temperatures.

Climate change will increase annual average temperatures but more so during the warm months. It is then important, as a matter of strategy, to 1) maximize farm productivity during the cool months with excess produce utilized in food processing, 2) setup screen houses in low-lying areas which can control projected higher day-time temperatures, and 3) strategically develop the remaining areas of perennial cool-weather. To the last point, perennial cool weather areas should be treated as prime agricultural lands and must be provided with additional incentives to spur investments in converting idle lands into farms as well as increasing productivity in already existing farms in these areas. Some of these lands are still not cultivated and belong to the government or are part of an ancestral domain. These can be developed with the private sector in a process similar to the Mineral Production Sharing Agreement (MPSA) for mineral resources.

Urban Farming

There are numerous idle small lots in city centers that can be converted into urban farms. McDougall and others (2019), when they studied urban farms in Australia revealed that while the productivity of urban farms is higher than conventional farms, its benefit-to-cost ratio is much lower at 0.62. Most urban farms are not economically viable unless they are at a certain scale. Computing for the scale in a lot size required with a single laborer earning PhP 11,814.00/month (Metro Manila minimum wage), a cultivated area of 200 square meters is needed just to cover labor costs (using tomatoes at PhP 40.00/kg and 3kg produce per square meter every 2 months). However, if additional incentives such as real property tax breaks and free farm implements, 500-meter plots per farmer should already be

financially viable considering the higher “farmgate price” that they can command due to their urban location.

Many idle lands in urban centers like Metro Manila are government-owned properties. The University of the Philippines (UP) Diliman Campus alone has more than 20 hectares of idle lands not even being used as parks nor reserved for medium-term developments. The use of hydroponic farming techniques and screen houses to produce premium organic/pesticide-free vegetables should also lead to being able to command a higher price and further reach profitability.

Smallholder Farm Optimization vs. Mechanization

One of the longstanding strategies of the government in reviving the agriculture sector is farm mechanization. However, this may not be the most viable solution for us moving forward.

Optimal farm production results in an increase in productivity, enhanced resilience from natural hazards, and long-term climate change leading to higher income given the manpower and capital expenditure inputs. Mechanization or the use of farming and processing technologies is one technique that may result in optimization. Two subtle points differentiate the two related but different concepts. First, mechanization may lead to optimization but certainly, it is not the only way to achieve optimal farming. Proper selection of space, scale, and time of cultivation are factors that also lead to increased productivity and/or lower expenditures. Marketplace optimization techniques such as off-season availability, product differentiation, cost reduction and pricing strategies also come to play. Second, mechanization does not lead to optimization if it doesn't translate to higher incomes for farmers. The use of farm equipment (tractors, threshers, etc.) only becomes an advantage when labor cost is reduced, crop yield is increased, and/or the time saved by the farmer is used for other economically beneficial activities. Otherwise, mechanization simply becomes an additional expense. Mechanization is most applicable if a single farmer can expand the area he can cultivate.

In the Philippines, distributed farmlands are limited to a maximum of 3 hectares. The productivity of a Filipino farmer is minimally improved by

mechanization. Worse, in 2012, the average individual farm holding has decreased to 1.29 hectares with only a quarter of this total lot being permanently used for farming (PSA, 2015). The problem started with the subdivision of land and their sub-optimal sizes through agrarian reform and was further exacerbated when these are further subdivided to the heirs of grantees. This is what National Scientist E.Q. Javier refers to as “the constraints from smallness”. Simply put, mechanization is an optimization option for expanding areas being cultivated but will not significantly increase farm productivity if the land area is limited to small sizes.

The recommended strategy is optimizing smallholder farm production. This entails optimizing space and layout, time management, increasing yield, and decreasing capital expenses all with the knowledge that many farmers (about 38% from the latest estimates) grow just enough food for their subsistence. Many countries have recognized this and have developed specific strategies for smallholder farms. This includes crop-livestock farming, intercropping, combined perennial-short-cycle crops, conversion to organic farming, use of screen houses, and government support in terms of seeds, fertilizers, and pest management.

During the COVID19 pandemic, smallholder farms in the country are given access to sell their produce directly to consumers through various NGOs and startup firms that employ e-commerce. This effectively increased the profit of farmers by cutting off bulk traders and middlemen in the transaction. This can be further expanded if a virtual marketplace is established that even small-volume traders can communicate to farmers directly and regularly.

Industrial-scale farms are still possible in the country via two pathways. First is through the consolidation of smallholder farms either through contract growing or land lease agreements. However, this will only happen if the farmers themselves see this as a means to increase their income. Note, however, that the establishment of cooperatives as a strategy mimicking land consolidation to achieve economies of scale is not included here. Similar to other countries, there seems to be an intrinsic issue with Filipino farm cooperatives that lead to many cooperatives’ eventual failure. These existing organizational difficulties in the Philippines should be studied and resolved to make local cooperatives attractive to smallholder farmers.

Another response is the establishment of large farms in government-owned lands. Some of the prime agricultural lands are still part of the 300-600 thousand

hectares that remain owned by the government. Instead of subjecting these to agrarian reform resulting in even more smallholder farms, it is recommended that industrial scale farms be developed, where mechanization and other technologies such as large automated hydroponic farming makes economic sense. Some of these lands are part of the land grant given to State Colleges and Universities (SUCs), which remain mostly unutilized. These are ideal agricultural lands not for their location but with the availability of experts in the universities that should be able to contribute towards farm productivity via research and development.

Industrial-scale farms should be able to co-exist and not compete with smallholder farms if pre-established site-specific agreements are made. In fact, what is envisioned is a symbiotic relationship between corporate and farmer-owned farms in a designated food production area. In exchange for tax breaks, government contracts and other government incentives, corporate farms are required to provide assistance to nearby smallholder farms, which may be in the form of subsidizing farm implements, lending of machinery, sharing of R&D, and bulk buying of their produce.

Social Enterprise Farms and the Next Generation Farmers

The Department of Agriculture's (DA) 2020 Food Security Development Framework enumerates strategies that will contribute to uplifting the agricultural sector: farm consolidation, modernization, industrialization, export promotion, and infrastructure development. However, it misses out the most important component in agriculture – the 5 million farmers who are past their most productive years and not being replaced by the next generation farmers. Perhaps with a more attractive prospect in agriculture through the DA strategies, a new breed of farmers will emerge. There should be a focused manpower development program that would go hand in hand with the planned external improvements in the agriculture sector.

The aging farmer population needs to be replaced by the next generation of farmers to sustain any improvements in the agricultural sector. Unfortunately, the children of current farmers are discouraged by the parents themselves to continue their family's trade (Palis, 2020). This disinterest results in agricultural

land sales, land-use conversion and increasing idle farmlands. In hindsight, the farm property distribution under the agrarian reform program should have had the precondition that land-use cannot be changed and results in forfeiture if the properties are no longer tilled. Still, a different strategy is required to encourage the younger generations to farm.

The first step is to create social enterprise (SE) farms in government-owned lands. These are industrial-size farms (>50 hectares) that are operated both as a commercial endeavor and a farm school (high school level). It can be wholly government-run or in partnership with the private sector. In either modality, SE farms aim to achieve two equal objectives, namely 1) financial viability as a business, and 2) its social objective of training the next generation agriculture workers. This is where we instill the agribusiness approach to managing farms (Javier, 2005). Graduates are directly employed by the farm through internship programs as preparation for setting up their own farms. Likewise, farm schools should pave the opportunities for further studies in agriculture, agricultural engineering, and agribusiness at the college level.

Aside from scholarships, the incentives to farm school graduates may include outright land grants, employment in newly established SE farms, support in capital investment, and direct purchase of products from the farms that they will establish. Through this, we should be able to elevate the image of farmers from soil tillers to food production entrepreneurs as they will receive training not only in crop cultivation but also in farm management, food processing, marketing, and sale of products.

Farm schools are currently operating in the country. However, these schools still lack clear pathways for graduates in joining the agriculture workforce. Sadly, most farm schools are established to provide education so that the children of farmers can escape agriculture and be employed elsewhere. This is actually fair considering that these children should be accorded the widest options in choosing their career. However, SE farms should be designed to encourage its students to go into agriculture and instill in them that it can be a lucrative endeavor but more importantly that food production is a noble goal just as important as other careers that contribute to taking care of society and nation building as a whole. One strategy that SE farms can take is to promote the school as a food school which effectively widens career choices to include farming, food processing, entrepreneurship, and culinary arts.

Conclusion and Recommendations

Past strategies to revive Philippine agriculture have been ineffective. In most cases, the recommendations were probably sound, but failed in implementation. This paper provides practical and doable strategies that do not need any special laws but only require government support and private sector participation for their implementation to be successful and their gains far-reaching. The five strategies again are: 1) adapt climate-resilient measures that would advance production and growth despite the ever-changing climate conditions, 2) promote crop overproduction and food processing with a guaranteed purchase agreement with the private sector and/or government, 3) strategic farm development for cool weather crops which will entail investments in pre-identified tracts of land still not subdivided by agrarian reform, 4) smallholder farm optimization instead of mechanization and the promotion of land consolidation strategies, and 5) the creation of social enterprise (SE) farms which will be the main training ground for our next generation of farmers. An ecosystem consisting of these important elements is what is referred to as Food Production Areas (FPA).

There are intersections among the five proposed strategies and common infrastructure that should be in place for all these strategies to work. These include the strategic allocation of remaining government agricultural lands, the use of SUC land grants or the consolidation of smallholder farms for industrial production or for setting up SE farms. The same areas would be ideal for establishing food processing plants which likewise can be used as training venues for SE farm students. In all future developments, the elements of climate resilience must be in place. The envisioned self-contained FPA would be initiated by government which builds the initial processing plant for which nearby organized smallholder farms can become contract growers. An increase in demand from processing plants will allow private sector-led industrial-scale farms, new processing plants, and cold chain facilities to be established. The synergy between large farms and smallholder farms are pre-determined in FPAs in that the big farms are tasked to help nearby smallholder farms with the end goal of optimizing their production. SE farms complete this ecosystem where the training of students ensures the manpower supply for all levels of the value chain. This model is then replicated one at a time for various food products across the country.

A climate-resilient agriculture sector should be one of the goalposts of any

climate adaptation measure. This strategy necessitates a government-industry synergy by which we can simultaneously cater to the challenge of food availability and affordability for consumers and the profitability of farmers.

In terms of foreign trade, balancing between importation and local production of vegetables can be considered. Economies of scale should be practiced in order to contribute to both vegetable availability and affordability. When it comes to imported perishable vegetables carrying a high transportation overhead, local production should be boosted to achieve a more competitive price against imports.

Three strategies may be adopted to aim for farm area development: 1) maximize farm productivity during the cool months with excess produce utilized in food processing, 2) setup screenhouses in low-lying areas which can control projected higher day-time temperatures, and 3) strategically develop the remaining areas of perennial cool weather. Again, key to the third strategy is how the private sector facilitates such processes, which are similar to the mineral production sharing agreement for mineral resources.

Urban farming can be further encouraged and improved through incentives such as real property tax breaks and free farm implements. Also, the use of hydroponic farming techniques and screenhouses to produce premium organic/pesticide-free vegetables may be able to command a higher price and achieve profitability.

Industrial-scale farms are still possible in the country via two pathways. The first is through consolidation of smallholder farms either through contract growing or land lease agreements. The other pathway is the establishment of large farms in government-owned lands. Industrial-scale farms should be able to co-exist and not compete with smallholder farms if pre-established site-specific agreements are made.

Social enterprise farms, in turn, should be designed to encourage its students to go into agriculture and not only demonstrate to them that it can be a lucrative endeavor but more importantly show food production is a noble goal just as important as other careers that contribute to taking care of society and nation building as a whole.

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ACCELERATING RESILIENCE AND CLIMATE CHANGE ADAPTATION: STRENGTHENING THE PHILIPPINES' CONTRIBUTION TO THE GLOBAL DECARBONIZATION AGENDA

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The message of the IPCC Special Report on Global Warming of 1.5° C (IPCC 2018) is clear.¹ Climate change is here and the difference between warming to 1.5 degrees and 2 degrees engenders a dangerous tipping point that can change the world as we know it. But limiting warming to 1.5 degrees will only prevent some of the worst-case scenarios. It will not and cannot eliminate the urgent need to cope with climate change impacts which will be dire in any case, especially for countries like the Philippines whose populations are disproportionately at risk. It is thus critical for the Philippines to implement measures to adapt and protect itself and, at the same time, strengthen its contribution to global efforts under the Paris Agreement.

In this paper, we discuss the state of play of climate action in the Philippines - what the country has done to advance climate-risk resilience and climate-aligned development and where it is as regards the international effort to limit global warming to 1.5°C - and how its 'ambition' on the latter squares with its efforts on the former. We propose a resetting of that ambition, suggesting that it reconnects to its anchor (adaptation/resilience) and context (sustainable development), away from a GHG inventory-centric approach, so that both national adaptation/resilience and global mitigation goals are better served. This is not the standard decarbonization path but one that may be more suitable to a highly vulnerable country with a relatively tiny carbon footprint per capita like the Philippines. In the

Philippines, climate actions that prioritize adaptation and the building of resilient systems are likely to do more, at the margin, for global efforts to reduce the extent of climate change and cope with its impacts than disparate measures to reduce GHG emissions per se - for two reasons. First, robust community ownership of climate action, a necessary condition for any successful pursuit of climate-smart low-carbon development, will follow more easily from dedicated investments and targeted market interventions to build local resilience; the same cannot be said for campaigns to reduce GHG emissions. Second, and perhaps of greater strategic importance, prioritizing resilience can open up previously missed opportunities to significantly contribute to global efforts based on the country's comparative advantage - for instance, the biodiversity of its seas.

State of Play

The climate change agenda in the Philippines explicitly prioritizes adaptation. "The national priorities... shall be adaptation and mitigation, with an emphasis on adaptation as the anchor strategy." (NFSCC 2010) Mitigation, in turn, is considered as a function of (or arising from) adaptation: "Whenever applicable, mitigation actions shall also be pursued as a function of adaptation." (ibid). This positioning of priorities is not surprising given the country's location, climate, and topography; the Philippines is ranked among the top countries vulnerable to the impacts of climate change.² At the same time, the Philippines considers itself to be a 'minor contributor' to global warming.³ In 2018, the country accounted for 0.48% of world GHG emissions, at a rate of about one-third the global emissions rate per capita (Table 1).

Priorities were made clear with the Climate Change Act of 2009 (RA 9729) which sought to 'strengthen, integrate, consolidate and institutionalize government initiatives to achieve coordination in the implementation of plans and programs to address climate change in the context of sustainable development.' The Act re-launched a comprehensive approach to climate change, after what may have become a predominantly sectoral (and fairly fragmented) approach over the prior 20 years.⁴ The comprehensive approach included the establishment of a central coordinating institution in the Climate Change Commission (CCC); key policy instruments, in the National Framework Strategy on Climate Change

Table 1 . Total and Per Capita GHG Emissions and CO2 Intensity, the Philippines, the World, ASEAN 10 and Selected Economies, 2018

	PHL	World	ASEAN 10	EU	USA	AUS
GHG (MMtCO ₂ e)	235	48,940	3,552	3,330	5,790	619
% of World	0.48	--	7.25	6.80	11.83	1.27
GHG per capita, (tCO ₂)	2.2	6.45	5.42	7.45	17.72	24.78
CO2 emissions (kg per 2017 PPP \$ of GDP)	0.157	0.269	0.206	0.147	0.247	0.315

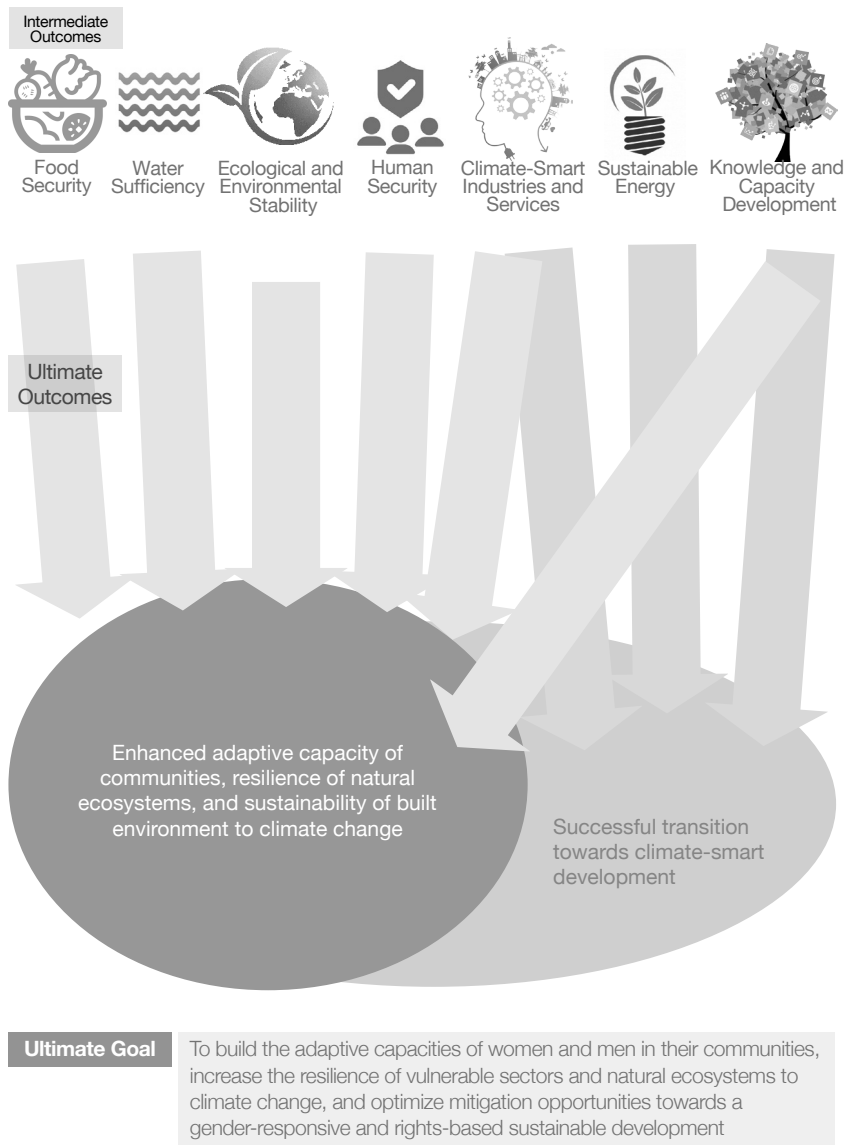
Source: Base Data: <https://www.climatewatchdata.org/> and <https://data.worldbank.org/indicator/>

2010 – 2022, or NFSCC and National Climate Change Action Plan 2011-2028 or NCCAP, and a mechanism to provide dedicated financing for the adaptation needs of local communities and local governments, i.e., the People’s Survival Fund. A Philippine Disaster Risk Reduction and Management Act was also enacted in 2010, representing a “paradigmatic shift in the way disaster risks are managed, away from disaster response and toward prevention, with climate adaptation considered an appropriate mechanism for disaster prevention” (WB 2013: 28). Other important legislation ratified include the Green Jobs Act of 2016, and the Energy Efficiency and Conservation (EE&C) Act of 2019.

As a matter of principle, the NFSCC ‘aggressively’ highlights the critical aspect of adaptation, “meant to be translated to all levels of governance alongside coordinating national efforts towards integrated ecosystem-based management which shall ultimately render sectors climate-resilient.” (NFSCC: 3). Its vision and goal of climate change policy are, respectively, “a climate risk-resilient Philippines with healthy, safe, prosperous and self-reliant communities, and thriving and productive ecosystems” and “to build the adaptive capacity of communities and increase the resilience of natural ecosystems to climate change, and optimize mitigation opportunities towards sustainable development.” (Ibid: 16).

In turn, the NCCAP’s ‘ultimate outcomes’ are (i) “the enhanced adaptive capacity of communities, resilience of natural ecosystems, and sustainability of built environment to climate change” and (ii) “a successful transition to climate-

Figure 1 . NCCAP 2011-2018, Ultimate Goals, Outcomes and Intermediate Outcomes



Source: Climate Change Commission (CCC)

smart development, and six out of its seven priority areas directly relate to adaptation, i.e. Food Security, Water Sufficiency, Ecological and Environmental Stability, Human Security, Climate-Smart Industries and Services, and Sustainable Energy (Figure 1). The NCCAP 2011-2028 is considered the “lead policy document guiding the climate agenda at all levels of government” and is organized into three 6-year phases, which correspond to the term of the Philippine Development Plan or PDP, effectively establishing the country’s “first long-term climate agenda” (WB 2013: 11, 27). In 2014, guidelines for formulating local climate change action plans were issued,⁵ as was an executive order institutionalizing the Philippine GHG Inventory Management and Reporting System, that would “enable the country to transition towards a climate-resilient pathway for sustainable development.”⁶

Notwithstanding high-level policy clarity and convergence, realizing operational convergence has been a struggle. A review of climate public expenditures and institutions in 2013 observed that, among others, development plans – national (i.e., PDP 2011-2016), departmental and local – were only “partially” aligned with the NCCAP, and that unless this and other “missing elements” in the institutional framework were addressed, the country’s climate reform agenda could not be properly executed nor realized (WB 2013). The 2013 review gave rise to climate change expenditure tagging (CCET) using a common policy-based typology and guidelines.⁷ CCET intended to provide line and oversight agencies with the means to plan, prioritize and monitor the national climate change response allocation and performance – ultimately, advance, strengthen and accelerate the implementation of the NCCAP across sectors and levels of government. Subsequently, two climate budget reports were produced (FY 2015 and 2016), and summary expenditure tables have been published annually since.⁸ Still, in the PDP 2017-2022, ‘climate change’ was assigned to the environmental sector, in competition (for funds) with other sub-sectors and development priorities; climate change adaptation remained conjoined with DRRM, an inadequate humanitarian understanding of climate change; and there was little sense of crisis, or that “the current development path may no longer be possible, much less optimal in the context of climate change.”⁹

Against this backdrop, the country submitted, in April 2021, its first Nationally Determined Contribution (NDC) under the Paris Agreement. The NDC stated the country’s “ambition for GHG mitigation for the period 2020 to 2030” to be

a projected “GHG emissions reduction and avoidance of 75%, of which 2.71% is unconditional and 72.29% is conditional” covering the agriculture, waste, industry, transport, and energy sectors, and referenced against a projected business-as-usual (BAU) cumulative economy-wide emission for the same period. The target reduction of 75% was deliberately set to convey high ambition, a ‘progression’ from the country’s Intended NDC (INDC) submitted to the UNFCCC in October 2015.¹⁰ In that earlier submission, the country set GHG emissions reductions of “about 70% by 2030 relative to the BAU scenario of 2000-2030” to come from “energy, transport, waste, forestry and industry sectors”, with the entire 70% conditioned on “the extent of financial resources, including technology development and transfer, and capacity building, that will be made available to the Philippines.”

The first Philippine NDC also stated that it shall “endeavor to peak its emissions by 2030” — described by officials as ‘aspirational peaking’ — in line with “its sustainable development aspirations and in solidarity with ASEAN Member States” and that it shall “undertake adaptation measures across but not limited to, the sectors of agriculture, forestry, coastal and marine ecosystems and biodiversity, health, and human security, to preempt, reduce and address residual loss and damage.”

Questions About the Country’s ‘Ambition’

A reduction of 75% in the stock of emissions collected between 2020 and 2030, along with a peaking of emissions by 2030, was universally welcomed by civil society groups for its “ambition”. On its face, 75% is an impressive number. However, a number of questions surround that target.

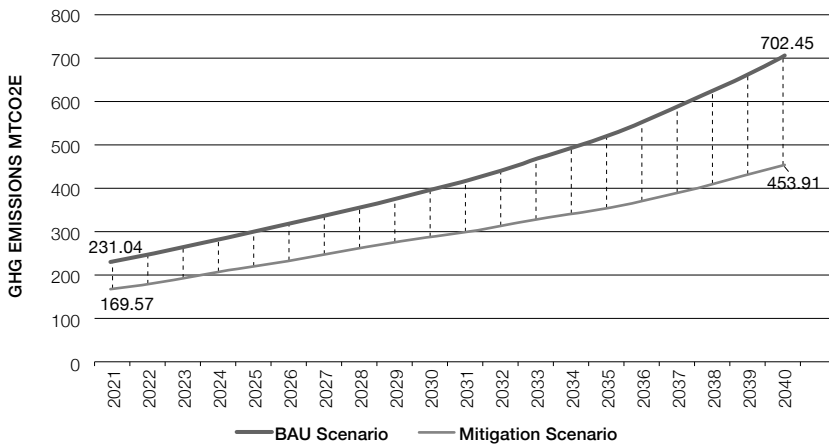
First, it is not clear what pathways are expected to bring about this target reduction/avoidance in the next 10 years; available figures on emissions avoidance/reduction by sector do not add up to 75%. To illustrate, the first iteration of the NDC, proposed in December 2020 was a projected cumulative GHG emission reduction/avoidance of 2671.13 MTCO_{2e}, out of projected BAU cumulative emissions of 8,791.6 MTCO_{2e} for 2020-2040, or a reduction/avoidance of 30% (Table 2, Figure 2). Summary figures by sector were provided and (unlike in the INDC which excluded agriculture) all sectors were accounted for.

Table 2. Projected GHG Emissions and Emission Reduction/Avoidance (2020-2040)

	Projected GHG Emissions, MTCO ₂ e, 2020-2040		Projected Emission Reduction/Avoidance, MTCO ₂ e, 2020-2040		
	BAU Scenario	Mitigation scenario	Total	Conditional	Unconditional
TOTAL	8791.63	6120.5	2671.13*	2485.57	185.56
% of BAU			30.38	28.27	2.1

* Breakdown by Sector: Agriculture, 66.09; Waste, 159.34; IPPU, 92.04; Transport, 113.6; FOLU, 1714.47; Energy, 525.59.
Source: CCC, 23 December 2020, 1st NDC Multi-Stakeholder Consultation

Figure 2. Projected GHG Emissions 2020-2040, BAU and Mitigation Scenario



Source: Climate Change Commission (CCC) 23 December 2020

The thirty percent target reduction was raised to 75% in the second iteration of the NDC, presented in February 2021, this time referencing a cumulative BAU emissions for a shorter period – 2020 to 2030 – and covering all sectors except FOLU.¹¹ However, only an 11% reduction was accounted for (Table 3). The drop to 11% from the previous 30% seemed to be due to the exclusion of FOLU. But no further information was provided for how the gap left by the FOLU sector would be filled, much less how the balance – a further reduction from 30% to 75% – could be achieved.¹²

Table 2. NDC Estimates as of 31 January 2021*

Sector	BAU**	Projected Reduction/Avoidance		Unconditional	Conditional
		Total	% of Sector BAU		
Agriculture	539.09	158.3	29.4	0.0	158.3
Waste	286.09	64.9	22.7	8.0	56.9
IPPU (+WHR)	279.84	53.9	19.3	13.9	40.0
Transport	689.19	44.5	6.5	44.5	0.0
FOLU	-113.42				
Energy	1659.52	45.9	2.8	25.1	20.8
TOTAL	3340.31	367.5		91.4	276.1
% of Total BAU		11.00%		2.74%	8.27%

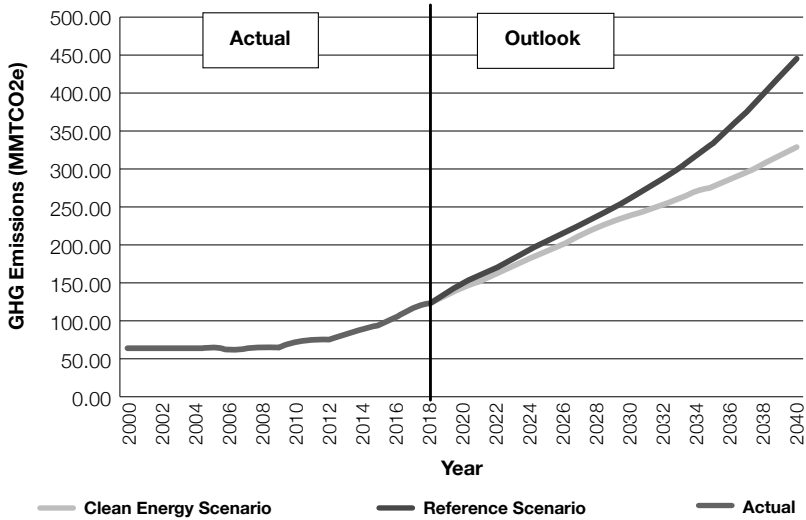
* Source: "Adjustments and Refinement in the NDC Measures from IPPU and Waste Sectors", Department of Environment and Natural Resources, 3 February 2021; ** Source: CCC

Whether and how emissions can feasibly “peak” by 2030 is a second puzzle. Will the complete set of pathways supporting the 75% reduction target (whatever this set may be) also support a peaking of emissions by 2030 – and how? The matter arises because the ‘mitigation scenario’ curve in Figure 2 indicates an increasing trend in net emissions well beyond 2030 and suggests the same even beyond 2040. Although this curve represented the earlier draft NDC (the earlier 30% reduction), FOLU was included - making it more difficult to imagine how emissions could reach a maximum then turn downward by 2030 without FOLU as the final NDC stated. The ‘Clean Energy’ scenario in the Philippine Energy Plan 2018-2040 (Figure 3), which is the basis for the energy sector’s NDC (Table 4), does not indicate a peaking of emissions before 2030 or 2040 either.

The decision to exclude FOLU from the GHG emissions target leads to more questions. As explained to stakeholders during the February 2021 consultation, the forestry sector was excluded because, as a negative emitter, “there is nothing to mitigate.”¹³ Instead, “forestry is considered in the NDC as an adaptation priority and ... support for the forestry sector will be available under the mechanisms of the Paris Agreement.”¹⁴ The CCC also explains that ‘decoupling’ the forestry sector from other NDC sectors, was necessary in the context of “keeping the integrity of the accounting process, also known as ‘mitigation mathematics.’”¹⁵

These explanations have not been helpful. Apart from the fact that government’s own CCET guidance defines climate change mitigation as actions “aimed at reducing GHG emissions, directly or indirectly, by avoiding or capturing GHG before they are emitted to the atmosphere or sequestering those already in

Figure 3 . Total GHG Emission: Actual vs. Outlook
(Reference and Clean Energy Scenarios)



Source: Author's replication of Figure 44 in Department of Energy (2018)

Table 4 . 2020-2040 Energy Sector GHG Emission Reduction/Avoidance

	2010	2020	2025	2030	2035	2040	Total
BAU (REF)	53.11	109.89	151.5	192.26	246.15	339.48	4,277.59
Transformation/Electricity	33.02	81.39	115.19	145.69	185.55	259.48	3,241.16
Industry	12.04	15.99	20.63	27	36.26	50.08	612.53
Others	8.05	12.51	15.67	19.56	24.34	29.93	432.9
CES	53.11	107.19	147.74	182.03	206.99	246.75	3,751.99
Transformation/Electricity	33.02	79.82	113.71	138.89	150.97	172.47	2,787.52
Industry	12.04	15.2	19.24	25.01	33.67	46.89	570.73
Others	8.05	12.18	14.79	18.13	22.35	27.39	393.74
Total GHG Avoidance/ Reduction	-	2.71	3.76	10.22	39.16	92.73	525.59
Unconditional Target: EE&C	-	1.13	2.28	3.43	4.58	5.72	71.96

Source: Department of Energy (DOE), Presented 3 February 2021

Table 5 . GHG Emissions: 2010 Inventory and Business-As-Usual Projections 2020 to 2030 (MtCO₂e)

Sector	2010 GHG Inventory	Projected Business-As-Usual (BAU) GHG Emissions											Cumulative 2020-2030
		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
Agriculture	43.152	49.5	49.5	49.4	49.4	49.3	49.1	49.0	48.8	48.6	48.4	48.2	539.1
Waste	15.559	23.3	23.9	24.4	24.9	25.5	26.0	26.5	27.1	27.6	28.2	28.7	286.1
IPPU	8.363	15.8	18.0	18.5	20.7	22.4	24.4	26.6	29.0	31.6	34.7	38.1	279.8
Transport	24.174	42.9	45.9	49.1	53.1	57.2	61.1	65.4	70.3	75.6	81.2	87.4	689.2
FOLU	-37.007	-24.4	-21.6	-18.8	-15.9	-13.1	-10.3	-7.5	-4.7	-1.9	0.9	3.8	-113.4
Energy	53.105	109.9	116.6	125.5	134.4	143.4	151.5	159.4	167.4	175.5	183.8	192.3	1659.5
TOTAL	107.346	217.1	232.3	248.2	266.5	284.7	301.8	319.3	337.8	357.0	377.2	398.4	3340.3

Source: Climate Change Commission (CCC) 21 May 2021

the atmosphere by enhancing ‘sinks’ such as forests” (CCC and DBM 2016, emphasis added).¹⁶ The government’s own estimates of BAU emissions from FOLU indicate that FOLU is expected to transform from a net negative emitter to a net positive emitter by 2030 (Table 3). This is a strong argument in itself for the inclusion of the sector, regardless of issues relating to the accounting of its GHG emissions.¹⁷

More fundamentally, it is a surprise that the inclusion or exclusion of FOLU – or any other program/subsector for that matter – would hinge on its showing in the GHG inventory per se. Terrestrial forests provide benefits far beyond carbon sequestration services, such as slope protection, flood mitigation, watershed protection, biodiversity protection and more. Multiple benefits are also provided by mangrove forests, including storm protection, water quality improvement, and benefits to biodiversity and fisheries (IPCC 2019). Thus, forest management is central to the country’s climate change response – at least two priority areas of the NCCAP involve it - and mitigation co-benefits should be accounted for explicitly in the country’s NDC.

The GHG inventory-centric approach implicit in the treatment of FOLU may explain the equally puzzling – and alarming – matter of a nationally determined contribution which is only 3.6% unconditional (i.e., 2.71 out of 75), begging the question of how that tiny portion squares with the high-level policy clarity and urgency on climate action, including the requirement to infuse all development

plans and policies with it. Exactly how important is climate resilience and sustainable development — consequently climate change adaptation and mitigation — if the country is willing to guarantee just 3.6% of its NDC? Does the 96.4 (conditional) – 3.6 (unconditional) split of the 75% emissions reduction mean that NDC programs and measures are largely extraneous to the climate-resilience and adaptation requirements of the country? (If so, why are they being proposed?)

That the NDC relating to the energy sector offers to reduce just 2.8% of its own BAU emissions for the period, although it accounts for 49.7% of the country's cumulative BAU emissions, and that near half of its NDC is conditional, raises the same questions.¹⁸ The same applies to the NDC offer involving agriculture, which is wholly conditional, including “carbon sequestration measures”, such as “rehabilitation/expansion of mangrove areas” and “establishment of bamboo plantation”, adding to the confusion surrounding FOLU. More importantly, designating mangrove rehabilitation as only a conditional measure downplays its critical role in coastal risk-reduction, food security and national and global climate risk resilience (discussed in the next section).

This study suspects that the same GHG-inventory-centric approach, apart from triggering a ‘decoupling’ of FOLU from the ‘rest of the NDC sectors’, also decoupled ‘mitigation’ from ‘adaptation’ (its anchor) and ‘sustainable development’ (its context). Thus, the NDC is operationally detached from the country's economy-wide climate action priorities, plans and programs which are driven by adaptation, and benefits from these priorities, including global adaptation or mitigation co-benefits, do not factor into NDC targets. Put another way, the NDC does not in fact embody a ‘whole-of-government-and-society’ approach that the Philippine government has been implementing in pursuit of sustainable development.¹⁹

This paper notes that mixed signals from the UNFCCC secretariat and other quarters on the treatment or inclusion of FOLU, or even adaptation, in NDC's may have played a large part in this decoupling.²⁰ However, Article 4 paragraph 7 of the Paris accord should be read alongside other provisions that recognize the circumstances of non-Annex 1 countries.²¹

In view of the foregoing, the necessary first step for strengthening and accelerating climate action in the Philippines would be to reset the country's ‘ambition’, returning to adaptation as the anchor strategy and pursuing mitigation

as a function of adaptation, with programs and measures driven by their impact on sustainable development and not by emissions reductions per se. Operationally this would mean (i) quantifying the operational (and indicative) investment requirements of the NCCAP, updated to at least 2040; (ii) prioritizing these requirements in medium- (and longer-) term sectoral and national public investment programs (PIP) and annual budgets, and (iii) estimating their national and cross-border adaptation and mitigation co-benefits. In this way, the selection of measures for the NDC would not start with an accounting of GHG emissions, but would end with it, making emissions reduction a co-benefit rather than a criterion for inclusion.

The science in the IPCC reports – especially, insights on the interplay between sustainable development and climate actions, i.e., the synergies/ trade-offs of adaptation and mitigation options consistent with a 1.5°C world and the SDGs²² – should inform the pace and scale of the NCCAP programs and measures. The precautionary principle would apply however and, ideally, adjustments would be done iteratively and regularly.

The classification of unconditional and conditional portions would naturally follow from the PIP-CCET exercise. It is important to note that international funding would likely gravitate to programs and measures with significant international spillovers and the marginal contribution to global emissions reduction from actions to cut in emissions in the Philippines (from an already small base) may not be significant. Thus, the importance of leveraging (and not excluding) programs with high adaptation-mitigation value such as those that protect global biodiversity and restore and strengthen ecosystems, both of which support the ability of countries to implement climate change adaptation and climate-risk reduction measures. Measures that demonstrate climate-smart adaptation and sustainable development models at subnational levels may also be of international interest.

Illustrations

This paper provides three examples of how organizing around resilience and sustainable development can propel coherent strategies to address local needs while potentially accelerating GHG emissions reduction as a co-benefit.

*Addressing the Demand for ‘Reliable, Secure and Affordable Power’
(v. Promoting ‘Clean Energy’ Per Se)*

The energy sector (excluding transportation) accounts for 1659.5 MtCO₂e or 49.7% of BAU cumulative emissions for 2020 to 2030. Power transformation (primarily, power generation) accounts for 75.6% of that, which is larger than the share of the Transportation or Agriculture sectors. However, the sector’s projected reduction is just 2.8% of its own BAU emissions, or 12.5% of the country’s mitigation commitment, a disproportionately small share, of which 45% is conditional.

The 2.8% reduction is computed by estimating a “Clean Energy Scenario” (CES) versus a reference scenario (REF) that is detailed in the Philippine Energy Plan (PEP) 2018-2040. The objectives of the PEP are to (i) increase the production of clean and indigenous sources of energy to meet the growing economic development of the country; (ii) decrease the wasteful utilization of

*Table 6 . Demand and Supply Outlook 2018-2040:
Assumptions for Reference and Clean Energy Scenarios*

Scenarios	Assumptions	
	Reference Scenario (Business as Usual)	Clean Energy Scenario (Alternative Scenario)
Energy Demand	<ul style="list-style-type: none"> • Response to the requirements of the Build, Build, Build infrastructure program and AmBisyon Natin 2040. • Maintain 2.0 percent biodiesel and 10.0 percent bioethanol until 2040. 	<ul style="list-style-type: none"> • Assumptions under the Reference Scenario, including the following: <ul style="list-style-type: none"> ✓ 10.0 percent penetration rate for electric vehicles for road transport (motorcycles, cars, jeepneys) by 2040; ✓ percent increase in aggregate natural gas demand between 2018 and 2040; and, ✓ 5.0 percent aggregate energy savings from oil and electricity by 2040.
Energy Supply	<ul style="list-style-type: none"> • Present development trends and strategies continue. • Consider 6,300 MW committed and 33,200 MW indicative power projects as of December 2018. • Increase renewable energy (RE) installed capacity to at least 20,000 MW by 2040. • Consider the aspirational target of 35.0 percent share of renewables to the generation mix by 2030. • Adopt 25.0 percent reserve margin. • Assume 70.0 percent load factor for the total Philippines. 	<ul style="list-style-type: none"> • Assumptions under the Reference Scenario, including the following: <ul style="list-style-type: none"> ✓ 10.0 percent penetration rate for electric vehicles for road transport (motorcycles, cars, jeepneys) by 2040; ✓ percent increase in aggregate natural gas demand between 2018 and 2040; and, ✓ 5.0 percent aggregate energy savings from oil and electricity by 2040.

Source: 2018 Department of Energy (DOE)

energy through the use of energy efficiency tools and strategies; and (iii) ensure the balance between the provision of reliable and reasonably priced energy services, support for economic growth, and protection of the environment. Of these, the first two objectives, which are consistent with the first two priorities of the NCCAP for sustainable energy – enhancement in the development of sustainable and renewable energy, and the promotion and implementation of energy efficiency and conservation – seem to be the central components of the CES (Table 6). Thus, to meet the estimated 71,817 MW (REF) or 75,325 MW (CES) in additional capacity required by 2040, the PEP indicates significant increases in variable and fixed capacity and a steady reduction in the utilization of coal power (Table 7 and Figure 4).²³

Questions about the sufficiency of the projected reduction in coal, or the possible inclusion of nuclear power, have arisen. But, for this paper, the more fundamental concern is the inadequate or incomplete alignment of the ‘CES scenario’ vis-à-vis the third PEP objective of reliable and affordable power, which is where opportunities for a more substantial NDC have been missed. The pursuit of reliable and affordable power will require competition policy reforms, investments in decentralized modular renewable energy generation for small island and isolated grids (SIIGs), and investments in grid modernization, all of which are either not mentioned or are too narrowly defined in the PEP, or are not clearly featured in the BAU or CES. Yet all can enable local economic growth, equity and decarbonization as a co-benefit more synergistically than the pursuit of clear energy per se.²⁴

Competition Policy Reforms

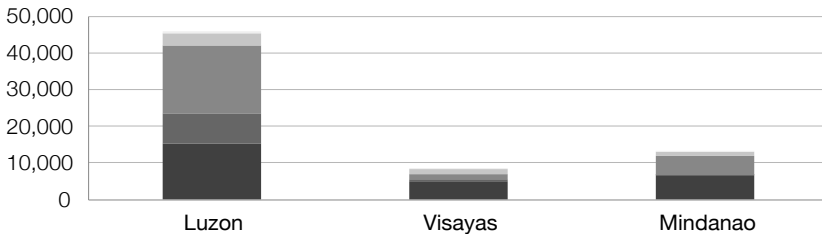
The power market in the Philippines has been shaped by regulatory incentives focused almost exclusively on generation capacity rather than system-level resourcing. This has prioritized pricing strategies to mobilize capital for large volumes of baseload capacity – a focus that has led to inflexible capacity payments and dependence on baseload coal (and pending combined cycle gas turbine technology) in the main grid, and diesel generation sets in SIIGs. The single-minded focus on baseload generation has, in turn, meant that system resilience, including flexibility, reliability and security, and grid modernization, has been undervalued.

*Table 7 . Reference vs. Clean Energy:
Total Installed Capacities and Total Capacity Additions by 2040
(for Milestone Years)*

Fuel Type	Installed Capacities					Total Capacity Additions by 2040	
	2018	2019		2020		REF	CES
	Actual	REF	CES	REF	CES		
Coal	8,844	18,900	17,850	31,470	18,150	22,626	10,506
Oil-based	4,292	1,993	1,993	1,993	1,993	115	75
Natural Gas	3,453	4,760	4,620	18,240	21,660	14,787	18,207
Renewable	7,226	25,266	26,259	38,881	50,479	34,289	45,337
Geothermal	1,944	1,890	1,890	1,770	2,770	697	1,597
Hydro	3,701	9,247	9,920	9,629	12,302	7,659	9,882
Biomass	258	660	660	660	1,550	402	1,292
Solar	896	11,393	11,393	22,050	24,960	21,254	24,064
Wind	427	2,076	2,396	4,772	8,897	4,378	8,503
Other Technology	-	-	-	-	1,200	-	1,200
Total	23,815	50,919	50,722	90,584	93,482	71,817	75,325

Source: 2018 Department of Energy (DOE)

*Figure 4 . 2040 Additional Net Capacities per Grid
(MW)**



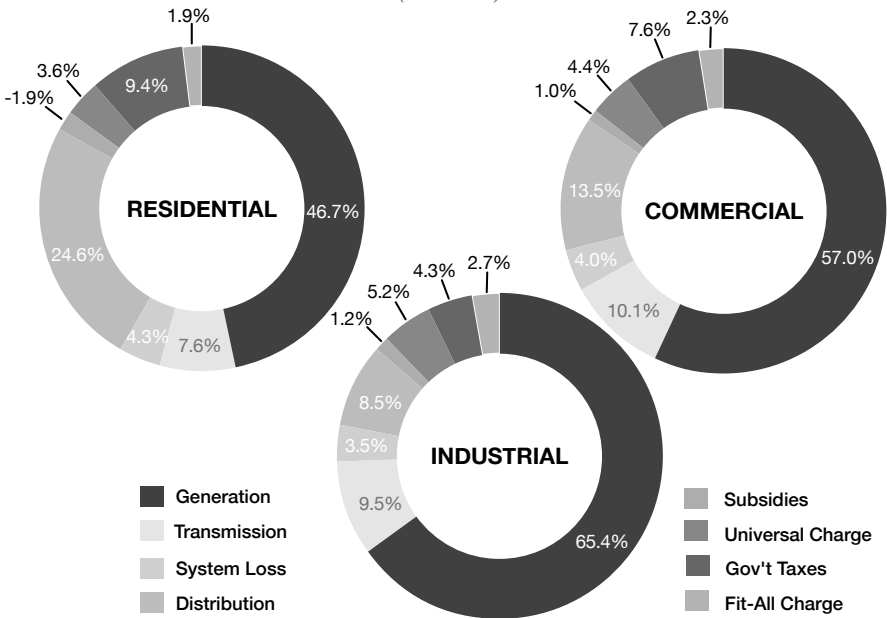
Baseload	15,220	5,000	6,553
Intermediate	8,400	700	200
Variable	18,500	1,324	5,148
Flexible	3,200	1,340	1,100
Peaking	420	200	40

* Net of retiring plants between 2018-2040

Source: 2018 Department of Energy (DOE)

Competition policy reforms can significantly accelerate the energy transition in the country’s main grid jurisdictions and substantially help realize the government’s affordable electricity objectives more quickly. For instance, making fixed price bids, carve out clauses, and uniform force majeure provisions mandatory in power purchase contracts. Fixed price bids would correct the automatic fuel price pass-through enjoyed by fossil fuels, particularly coal. Currently coal plant proponents bid low to secure tenders but are allowed to automatically pass on higher prices to the consumer once their plant begins operating commercially, effectively passing on great and growing global volatility risks in coal to ratepayers. Without triggers for mandatory carve out clauses, distribution utilities (DUs) – and their customers – are locked into paying for coal power whatever the fluctuation and however frequent the price changes, for the duration of the contract period. Uniform force majeure provisions would distribute risks, which are currently shouldered largely by DUs, particularly smaller DUs, and ratepayers.

Figure 5 . Average Share Percentage of Cost Components of Electricity Rate per Customer (2017-2018)



Source: 2018 Department of Energy (DOE)

The impact of these reforms will be felt most tangibly in a drop in electricity rates to main grid customers, where at present the largest component by far is generation costs at 46.7% of total for households, 57% for commercial and 65.4% for industrial customers (Figure 5).

Competition policy reforms are particularly important to realize gains from changing market conditions for fossil fuels. In the Philippines, there are thinning margins in fossil fuel generation, such as coal, due to a variety of reasons including higher operating costs incurred from insurance procurement or renewal challenges. Retail competition in the power sector and the interaction of renewable energy (and storage) cost deflation have also impacted the future profitability of fossil fuels.

Investments in Decentralized Modular RE Generation for SIIGs

The same single-minded focus on generation capacity has led to a regime of perverse incentives in SIIGs which drives up the cost of power. Basically, no incentives exist for electric cooperatives – the franchisees/DUs in SIIGs – to procure cheaper sources of energy: the return per kwh is fixed regardless of source, with the National Power Corporation Small Power Utilities group (SPUG) paying for any difference between the ‘fair price’ it sets and the purchase price of diesel in the area. SPUG payments are financed by universal charges levied on consumers in the main grid.

The affordability problem is acute: prices are at levels that would never be accepted in the main Luzon grid. Efficiency gains from changing market conditions – RE is now roughly 60% cheaper than diesel-fired power – are not enjoyed by consumers in SIIGs.

Modular RE generation for SIIGs will benefit over half the population who are currently served by under-funded electric cooperatives that rely on diesel. It would also benefit the missionary areas currently assigned to the SPUG, of which just 14% receive 24/7 electrification. SPUG has asked for an increase in cross-subsidies collected from all households to rectify this, but what is really needed is a financially sustainable solution that enables affordability and price stability and improves energy security.

Should SPUG shift away from diesel, the savings realized from fuel alone can be up to PhP 13.5 billion (USD 275 million) annually. First-time access to electricity

in rural areas is associated with a 36% increase in per capita income and a 34% increase in per capita spending (Navarro 2013), moreover. Reforming SIIGs and reducing their need for cross-subsidies could also mean social-economic benefits to main island consumers.

There is a clear economic and financial case to transition to modernized technologies as well as clear direction towards low-carbon and distributed RE resources in the PEP. To facilitate that transition and realize potential benefits as soon as possible, key barriers to uptake must be addressed. These include a regulatory design that supports subsidized diesel generation sets, technical capacity gaps among stakeholders, and a dearth of tailored financial products, particularly with respect to small-scale and remote island energy projects. It is also important to note that despite some effort to improve procurement practices in SIIGs, the high cost of capital and grid integration issues remain.

Grid Modernization

In the PEP, modernization includes infrastructure, software, and training programs, with a focus on emerging grid modernization technologies and deployment of distributed energy resources. However, the understanding of 'grid modernization' may be expanded to include flexibility, reliability, resilience, sustainability, affordability and security. Coupled with competition policy reforms, grid modernization can produce compelling outcomes.²⁵

To have a modernized grid means to be resilient against extreme weather events and flexible to deal with shifts in demand. For example, electric cooperatives were hit with at least PhP 3.16 billion (USD 65 million) in infrastructure damages in the latter half of 2020 due to climate-fueled disasters. But the sector NDC considers all energy resilience policies and measures as conditional, and their impacts, including mitigation co-benefits, have not yet been assessed or reflected in energy sector targets.²⁶

A modernized grid which aims for increased flexibility and stability would integrate market opportunities such as a new ancillary services market. Energy storage systems would also have an important role in improving the stability and reliability of the electricity grid. The strengthening of substations, transformers, low or medium voltage lines, and other associated components would enable

SIIGs increase the use of renewable energy.

On energy storage systems, the PEP makes mention of over 2 gigawatts of pumped storage. However, there are opportunities beyond pumped storage that can contribute to reserve resources – specifically battery energy storage systems (BESS), the economic viability of which the PEP currently underestimates. The PEP assumes that BESS will complement variable renewable energy only by the 2040s (that is, it does not mention BESS in BAU or CES.) However, at the start of 2021, thirteen (13) BESS combined projects in Luzon equivalent to 320MW obtained financing. The San Miguel Corporation in the Philippines also installed 40MWh as part of a 470MWh installation. The PEP can therefore be improved by including realistic cost trajectories of BESS in both the BAU and CES.²⁷

A refinement of the grid modernization strategy can be made possible with an audit of current grid plans vs a modernized grid; cost-benefit analysis of the modernized grid, including distributed systems vs centralized systems; analysis of hybridizing SPUG assets to renewable energy with grid strengthening; and technical and market strategies that would include grid and ancillary service modernization market design.

*Organizing to Deliver ‘Efficient, Safe and Sustainable Urban Mobility’
(v. Promoting ‘Emission-Free Vehicles’)*

Transportation is the third largest source of GHG emissions in the country, after electricity and agriculture, and within transport, the road sector makes the largest contribution.²⁸ The road sector accounted for 21.7 MMtCO₂, or 90.49%, of the sector’s emissions in 2010, which is projected to increase to 80.5 MMtCO₂, or 92.4%, in 2030, and to 155.9 MMtCO₂, or 93.9%, in 2040.²⁹

Emissions from the transport sector reflect the more fundamental issues of inadequate and ineffective transport planning and fragmented public transportation management between national government agencies and local government units, however, leading to traffic congestion, high levels of air pollution and energy use, and high costs in terms of income and productivity, especially in highly urbanized cities (HUC) across the country. Thus, MM was tied for worst city in the world for traffic congestion in 2019 with a congestion rate of 71% (meaning a 30-minute trip took 71% longer to complete), and tied for

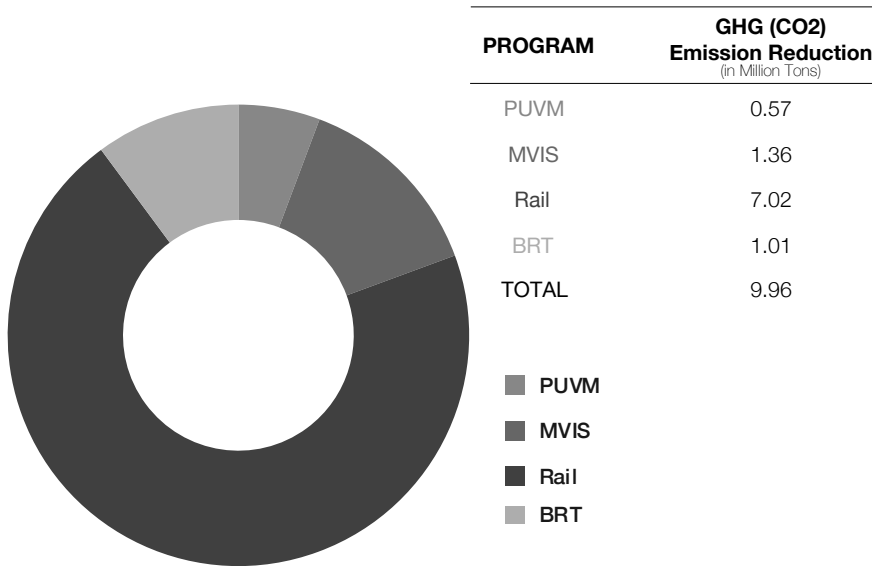
second worst city in 2020, at 53%, despite the pandemic.³⁰ Traffic congestion in MM costs road users about is estimated to increase to P 6.0 billion per day by 2030 (from PhP 2.4 billion in 2014), and low-income households spend 20% of their monthly income on transport (ALMEC Corp. 2014). In 2018, emissions from mobile sources, mainly motorized vehicles, accounted for 81% of air pollutants in MM and 74% nationally (DENR 2018). In 2019, road transport accounted for 88% of the energy consumed by transport sector, which in turn accounted for the bulk of energy consumed in the country (DOE 2020).

At bottom is the historical bias of transportation investments in urban areas towards the movement of motor vehicles rather than the movement of people and their basic needs.³¹ The severity of the mobility problem was exacerbated during the COVID-19 pandemic, when the suspension of public transport from March to May 2020 left households who did not own cars - an estimated 88% of households in and around Metro Manila - without mobility options (ALMEC Corp 2015). Supply chains were also disrupted causing PhP 67 billion in losses for the agriculture sector as traders were unable to purchase produce for Metro Manila (MM) (Yu et al., 2020).

The good news is that while the NDC of the transportation sector is relatively small versus its BAU emissions, programs and measures listed are, at their core, driven by development and adaptation objectives, and not by the need to mitigate climate change per se, explaining why they are wholly unconditional. The proposed NDC covers transport fleet modernization and inspection, modal shift, and infrastructure development, and features the Public Utility Vehicle Modernization Program-1 (PUVMP-1), Motor Vehicle Inspection System-1 (MVIS-1) Program, Rail Projects, and Bus Rapid Transport (BRT) Program (Figure 6). Three out of the four programs are focused on reforming the public transport system, intended to incentivize a shift away from private vehicle use to multi-modes, including public transport, which can ‘move’ more people per unit of vehicle, with a phased-in conversion towards more fuel-efficient public transport fleets. Apart from reducing road congestion, efficient public transportation reduces competition for space and urban sprawl.

Programs pursue safety, accessibility, and equity. For instance, the PUVMP aims to not only modernize the public transport fleet (e.g., replacing outdated engines with more fuel-efficient units) but improve travel safety and accessibility of the commuting public, especially vulnerable groups such as women and Persons with

Figure 6. Transport Sector Mitigation Options



Source: Department of Transportation (DoTR), presented 3 February 2021

Disabilities, by equipping units with lowered step-through entry point and CCTV cameras, among others. The PUVMP also pursues the formalization of public transport players through franchise and route rationalisation and the elimination the 'boundary system', which is viewed as 'unjust'.³² The transition will be difficult, however. Apart from the high upfront cost of fuel-efficient public transport units, route rationalisation in Metro Manila would mean a 22% reduction in the jeepney fleet (Mettke et. al 2016), which transport groups have underscored.³³

Other potential measures, including integrated terminal exchanges and greenways projects, continue to be considered by the sector. The important point however is that the strategic focus is on the development of an environmental-friendly, people-centred, and accessible transport system, rather than on emissions reduction. This arises from three policy frameworks developed since 2010, namely the National Environmentally Sustainable Transport Strategy (NEST), the 2017 National Transport Policy (NTP), and the 2020 Philippine Urban Mobility Program (PUMP). The transport and climate-smart development components in the NCCAP 2011-2028 are actually based on the NEST. Consequently, the

programs listed under the transport sector's NDC, which are aligned with the NCCAP, are also aligned with the NEST.

The most recent framework, PUMP, which focuses on safe and efficient subnational mobility, is a particularly practical and relevant opportunity for accelerating climate action. The integration of PUMP into local development plans can directly advance local sustainable development goals while optimizing opportunities for GHG emissions avoidance/reduction in the process. PUMP aims to unlock opportunities for prosperity by providing a framework for the national government to support cities and urban towns improve mobility with inter-connected, multi-modal means (Kaenzig et al. 2019). Among others, the PUMP features (i) the delivery of improved facilities for walking and cycling, (ii) the modernization of public vehicles and rationalization of routes, (iii) actions to improve the efficiency of urban freight and logistics, and (iv) the promotion of transit-oriented development. The PUMP is expected to deliver tangible 'sustainable development' benefits to travellers and households – ultimately more compact, liveable, and prosperous communities (Table 8) – but also co-benefits in the form of reduced GHG emissions estimated at 6% to 10% of total accumulated transport emissions between 2020 and 2030 (Figure 7).

Cities and urban centres are the nexus of implementation of PUMP. Hence, these measures require buy-in, ownership and leadership of cities and local governments. Integration is supported by Omnibus Franchising Guidelines (2017) which give importance to local-level transport planning and the use of the local government's local public transportation route plans (LPTRPs) in the issuance and approval of transport franchises.³⁴ The recent 'Mandanas-Garcia' ruling of the Supreme Court also supports local integration and the full devolution of functions for local development, including transport planning, to cities and local governments by increasing internal revenue allocations to them. In other words, it is an opportune time for cities and provinces (as consolidating administrative political units) to reconfigure their transportation and mobility plans as key components of comprehensive land use plans and comprehensive development plans, guided by PUMP and consistent with the vision of a "safe, secure, reliable, efficient, integrated, intermodal, affordable, cost-effective, environmentally sustainable, and people-oriented national transport system."³⁵

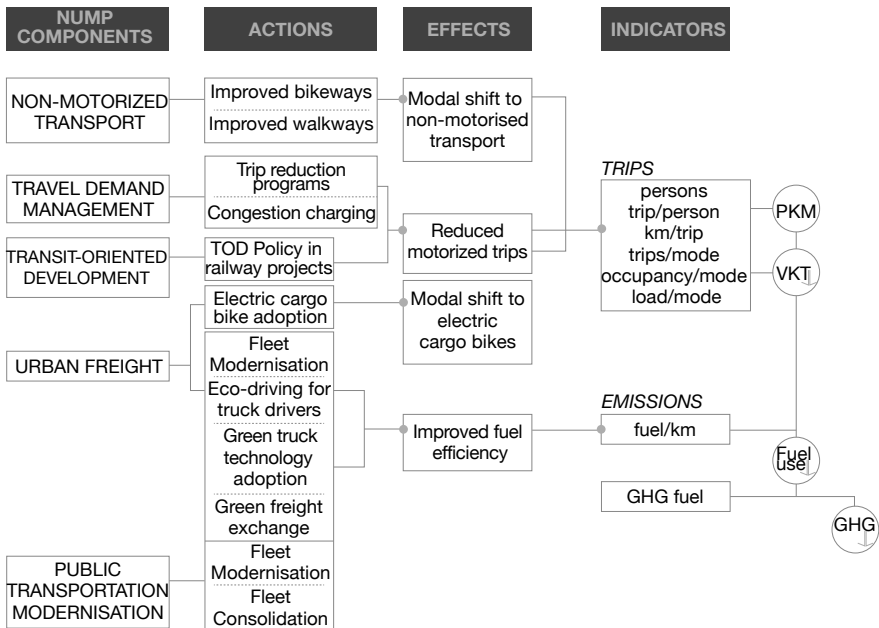
The primary challenge of PUMP will be finding innovative ways around the institutional fragmentation in transport planning and management between

Table 8 . Qualitative Assessment of Sustainable Development Benefits from PUMP (Sample Only)

Benefits	Relative Importance	Justification
Improved NMT Conditions	High	Improved user convenience and comfort Improved accessibility for non-drivers, which supports equity objectives Higher property values
Increased NMT Transport Activity	High	User enjoyment Improved public fitness and health Increased community cohesion which tends to increase local security
Reduced Automobile Travel	High	Reduced Traffic congestion, Increased traffic safety Energy Conservation, Pollution reduction Economic development Road and parking facility cost savings Consumer savings
More Compact communities	High	More livable communities Improved accessibility, particularly for non-drivers, which supports equity objectives Reduced sprawl costs Openspace preservation Transport Cost Savings

Source: Kaenzig et al. (2019)

Figure 7 . The Causal Chain for GHG Emissions Reduction Due to the Philippine Urban Mobility Program



Source: Kaenzig et al. (2019)

and within national/regional agencies and local government units (provinces, cities, municipalities). There are also technical capacity issues, especially for cities and local government units, in the generation of needed baseline information to inform and integrate transport planning in land use planning and local development planning

The rollout of the PUMP would benefit from the following support: (i) quantification of potential impacts on SDGs at the national level (ii) subnational modelling of transportation and mobility options and their sustainable development and mitigation co-benefits taking into account geography (e.g. landlocked or island provinces, among other variations), types of urban forms and cities (e.g. metropolitan areas, component cities); (iii) piloting components of PUMP at province and city levels including, among others, formulating locally appropriate definitions of ‘green routes’ as an integral part of province/city LPTRPs.

Ultimately, an efficient transport system plays a key role in delivering prosperity and in building resilience of urban systems, quite apart from benefits in GHG and non-GHG emissions reduction. The Philippines’ transport NDC is a means to that end.

Empowering Coastal Blue Carbon Ecosystems for Coastal Risk-Reduction, Food Security and National and Global Climate Risk Resilience

The Philippines is a maritime nation with a coastline of 36,289 km, the 5th longest in the world, and marine ecosystems that comprise anywhere from 66% to 86% of the country’s domain.³⁶ Approximately sixty percent of the country’s population live in coastal zones, including the majority of the country’s poor, who depend on local ecosystems for food and income.³⁷ Approximately 10 million Filipinos rely directly on small-scale fishing to meet their household food needs (Courtney et al.2016), over 1.6 million Filipinos depend on the fishing industry for their livelihood (Santos et al. 2011), and seventy percent of the protein requirements of the Filipinos for nutrients, minerals, and essential fatty acids are derived from fish (ibid). In 2018, the Philippines was the 8th largest producer of fish and the 4th largest producer of aquatic plants in the world (BFAR 2020).

The seas of the Philippines are also extremely rich in biodiversity.³⁸ The Philippines sits at the apex of the Coral Triangle, which supports an array of

biodiversity and is recognized as the global epicenter of marine biodiversity (Santos et al. 2011). Philippine reef systems span roughly 26,000 square kilometers, – the second largest in Southeast Asia (SEA) – harboring about 500 species of stony coral, 42 species of mangrove, and 16 species of seagrass (ADB 2014). Total area to mangrove forests and seagrass meadows is roughly 0.26 million hectares and 97,800 hectares respectively.³⁹ The Philippines' biodiversity is a key resource because healthy ecosystems “will be more resilient to climate change” and “must lie at the center of any adaptation policy.”⁴⁰

Despite the diversity and vastness of the country's marine resources and their role in human survival and the quality of life, the marine economy has received relatively scant attention in national development plans and programs; the bias of public investments in the agriculture sector has always been in crops, specifically in rice.⁴¹ Thus, the volume of commercial and marine municipal fisheries production has been on the decline, pulling down overall fishing production even as inland municipal and aquaculture have shown slight increases.⁴² The decline is largely the result of the degradation of coral reefs which serve as habitat for marine organisms due to siltation from deforestation, destructive fishing practices, overharvesting of mangroves, lime and sand quarrying, plastic pollution, among other factors.⁴³

The degradation of coastal ecosystems is of particular concern given their multiple roles, especially in climate change adaptation and mitigation. Coastal wetlands are among the most productive ecosystems, providing services that not only underpin fish stocks and maintain food security, but protect coral reefs and populated coastal lowlands from erosion and flooding, among other ecological and socio-economic benefits to local communities and national economies (Crooks et al. 2017, Quevedo et al. 2021). Tamayo et al. (2018) estimates that reef ecosystem services in fifteen regions have a total economic value of 4 billion USD/year, or 140,000 USD/km/year.⁴⁴ Azanza et al. (2017) estimates the economic contribution of coral reefs, mangroves and seaweed ecosystems to be USD 966.6 billion in 2007 prices (Table 9). Mangrove loss alone has resulted in increases in flooding to more than 267,000 people/year between 1950 and 2010. Restoring these mangroves would bring more than USD 450 million/year in flood protection benefits (WAVES 2017).

The extent to which communities and economies will be able to adapt to climate change impacts will hinge critically on the sustained supply of ecosystem services from coastal wetlands (among other critical ecosystems) which sustain life and

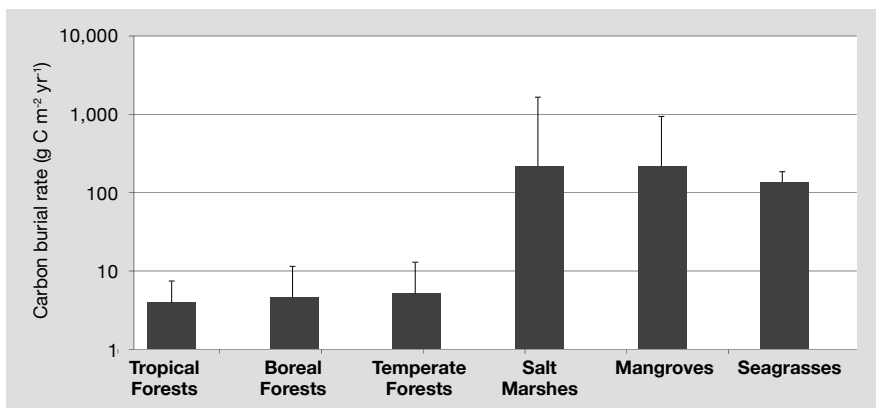
Table 9 . Estimated Total Monetary Value of Marine Ecosystems
(in USD Billion, 2007 Prices)*

Marine Ecosystem	Total Monetary Value
Coral reefs	915.847
Seagrass	2.828
Mangroves	47.918
Total	966.594
Note: Continental shelf*	533.808
Total including continental shelf	1,500.40

Source: Azanza et al. (2017)

livelihoods. But coastal wetlands also play a critical role in the regulation of global climate itself, buffering the adverse effects of changing (increasing) world CO₂ levels in the atmosphere. Specifically, mangroves, seagrasses and tidal marshes – collectively known as coastal blue carbon ecosystems (BCE) - sequester carbon dioxide from the atmosphere, building stocks of carbon in their biomass and soil material; the sequestration rates of BCE far surpass that of terrestrial forests (Figure 8). In turn, when degraded or destroyed they can become a significant source of GHG emissions, releasing “thousands of years of sequestered carbon over a period of years to decades.” (Crooks et al. 2017, p.1).

*Figure 8 . Figure 8. Carbon Sequestration Rates Compared**



* Mean long-term rates of C sequestration in soils. Error bars indicate maximum rates of accumulation. Note y-axis in logarithmic scale

Source: Source: Macleod et al. (2011)

In other words, BCEs are not just a critical local and national resource but a critical global resource as well. Consequently, improving BCE management – their conservation, protection and restoration - presents a strategic opportunity for the Philippines to advance not only the well-being of coastal communities but climate-risk resilience and sustainable development at both national and global levels.⁴⁵ Placing BCE management at the center of the country’s NDC for both ‘adaptation’ and ‘mitigation’ will be a far more substantial contribution of the country to global climate risk-resilience and sustainable development under the Paris Agreement.

As it is, however, this strategic opportunity has not yet been operationally realized, much less seized, by the Philippines. On the one hand, the importance of coastal and marine ecosystems to both adaptation and mitigation, including the potential of blue carbon, was explicitly articulated in the country’s INDC, reflecting the NSFCC, NCCAP, and First and Second National Communications to the UNFCCC (in 1999 and 2014 respectively) which were formulated before it. On the other hand, only 1.3% of the total PhP 135.16 billion budget projected for the 13-year Philippine Master Plan for Climate Resilience Forestry Development 2016 -2028 (PMPCRFD) was allocated to “mangrove rehabilitation/plantations development” (Table 10), with other components largely focused on terrestrial

Table 10 . Indicative Budget 2016-2018 of ‘Strengthening Resilience of Ecosystems and Communities to Climate Change’, Component A of the PMPCRFD

Programs / Activities	Budget (PhP Thousand)			
	2016	2017-2022	2023-2028	Total
Watershed Management Planning and Forest Land Use Planning Program	204,800	1,372,900	104,000	1,681,700
1. Training on vulnerability assessment, adaptation planning, IWM, FLUP	10,200	83,100	0	93,300
2. Vulnerability assessment	61,000	237,000	80,000	378,000
3. Adaptation planning	30,600	89,400	24,000	144,000
4. Identification/ assessment of other watersheds	0	504,400	0	504,400
5. Formulation of integrated watershed management plans	28,000	103,000	0	131,000
6. FLUP formulation w/ LGUs	75,000	356,000	0	431,000
Forest Protection and Rehabilitation	3,649,047	17,015,514	15,683,880	36,348,441
1. Protection of existing forests and Plantations	813,214	5,385,660	6,129,804	12,328,678
2. Rehabilitation of degraded areas in protection forests	613,134	1,785,756	1,530,000	3,928,890
3. Mangrove rehabilitation/ plantations development	720,751	683,022	288,000	1,691,773
4. Agroforestry development	1,501,948	9,161,076	7,736,076	18,399,100
REDD+ Implementation	9,000	60,000	122,000	191,000
Total	3,862,847	18,448,414	15,909,880	38,221,141

Source: : DENR (2016). This component accounts for 28.3 percent of the total PMPCRFD budget. Mangrove rehabilitation/plantations development therefore comprises 1.3 percent of the PMPCRFD budget

forests and their goods and services. This fairly marginal treatment of mangroves is reflected in the country's NDC, where (as earlier mentioned) FOLU as a whole is excluded and 'mangroves rehabilitation' is inserted under the agriculture sector NDC as a conditional measure.

It is, of course, the protection, conservation and restoration of BCE ecosystems – an ecosystem-based approach - that will matter to climate change adaptation and mitigation, and not simply replanting which seems to have been the approach over the last decade, with wasteful results.⁴⁶ Among others, an ecosystem approach would not isolate mangroves from seagrasses and would recognize the crucial role of blue carbon among the ecosystem services they both provide; "blue carbon" is not found in the PMPCRFD. An ecosystem-based approach would also enforce the prohibition against the conversion of mangroves to fishponds or any other purposes as well as enforce the reversion back to mangroves where this has occurred. The implementation of greenbelts would also be critical.

The strategic opportunity to advance global climate change commitments through the conservation, protection and restoration of BCE can be shared by many countries in the region. While BCE are heavily concentrated in a few countries and regions, Southeast Asia is its "unambiguous geographic global center."⁴⁷ On mangroves alone, five of the top eleven mangrove-holding countries globally are in the region, specifically, Indonesia, Malaysia, Philippines, Thailand, and Vietnam (Table 11), with associated large amounts of mangrove biomass and soil carbon stocks. However, some of the greatest deforestation rates are also occurring in the region (Table 12) primarily through aquaculture but also palm oil. As a first approximation, Crooks et al. (2017) estimates that around 3.7 billion tons CO₂ have been emitted from converted mangroves and tidal marshes across the region, and annual carbon sequestration of around 6 MMt CO₂ has been lost.⁴⁸

Indeed, since many of the threats facing BCE are transboundary in nature, additional benefits can be gained through transboundary collaboration. The ASEAN Working Groups on Coastal and Marine Environment and Nature Conservation and Biodiversity may be venues to consider this further. The ASEAN-China Declaration for a Decade of Coastal and Marine Environmental Protection in the South China Sea (2017-2027) may also be an instrument of collaboration. Just recently (in May 2021), ASEAN member states adopted the Regional Action Plan for Combating Marine Debris, which built on the earlier

Table 11 . Estimated Mangrove Area in 2000 Using Different Techniques and Coverage in 2012 (n Ha)

Country	2000				2012	
	Giri et al.	MFW	BIOME	WAM	MFW	BIOME
Indonesia	2,707,572	2,407,313	4,664,152	2,986,392	2,332,429	4,305,957
Malaysia	558,581	496,868	873,795	709,727	472,584	770,043
Philippines	259,037	209,105	211,515	257,780	206,424	208,761
Thailand	245,121	193,345	436,165	250,057	188,633	399,979
Vietnam	215,529	71,640	128,791	101,497	70,817	126,293
Cambodia	47,572	33,839	75,339	60,189	32,322	65,375
China	17,910	3,223	3,580	20,118	3,155	3,491
Brunei	11,089	10,423	14,652	17,134	10,341	14,345
Timor-Leste	1,067	857	853	n.d.	846	843
Japan	1,000	792	803	652	786	797
Singapore	583	167	167	464	167	165
Total	4,065,061	3,427,572	6,409,812	4,404,010	3,318,504	5,896,049

Source: Crooks et al. (2017)

Table 12 . Estimates of Mangrove Loss 2000-2012

	MFW		Biome	
	2000-2012	Annually	2000-2012	Annually
Malaysia	4.89%	0.41%	13.23%	1.10%
Cambodia	4.48%	0.37%	11.87%	0.99%
Indonesia	3.11%	0.26%	7.68%	0.64%
Thailand	2.44%	0.20%	0.75%	0.06%
China	2.11%	0.18%	2.49%	0.21%
Philippines	1.28%	0.11%	2.10%	0.17%
Timor-Leste	1.28%	0.11%	1.20%	0.10%
Vietnam	1.15%	0.10%	3.37%	0.28%
Brunei	0.79%	0.07%	7.68%	0.64%
Japan	0.76%	0.06%	1.94%	0.16%
Singapore	0.00%	0.00%	2.46%	0.21%

Source: Crooks et al. (2017)

Bangkok Declaration on Combating Marine Debris in ASEAN Region and the ASEAN Framework of Action on Marine Debris.

To accelerate practical action on BCE, Crooks et al. recommend the tracking of BCE gains and losses and quantification of GHG emissions/removals following the guidance provided in the 2013 IPCC Wetland Supplement (specifically, Hiraishi et al. 2014); the promotion of the role of coastal BCE as a vehicle for sustainable environmental infrastructure; and the identification and evaluation of the significance of coastal BCE on policy areas such as trade, aid and integrated coastal management, among other measures. Importantly, they also highlight the inclusion of coastal blue carbon ecosystems within NDCs as an opportunity to restate the importance of coastal ecosystems to both adaptation and mitigation

commitments under the Paris Agreement, present cross-cutting methodologies and secure support for comprehensive approaches.

Concluding Remarks

This paper suggests a different path to strengthen the Philippine contribution to the Paris Agreement. The path features climate change adaptation and resilience as its anchor and sustainable development as its context, instead of the usual GHG inventory-centric approach, so that both national and global adaptation/resilience imperatives are better served.

This path recognizes that highly vulnerable countries with relatively small carbon footprints per capita like the Philippines are likely to do more for global efforts to reduce the extent of climate change and cope with its impacts if they build robust community ownership for climate action and leverage opportunities based on their own comparative advantages; one comparative advantage of the Philippines is the biodiversity of its marine and coastal resources. It also recognizes that climate change impacts will be dire even if global warming is successfully limited to 1.5 degrees. Thus, adaptation and resilience are imperatives for all countries and national contributions that are organized to support these efforts will be vital.

¹ An earlier version of this paper appeared as Monsod et al. (2021), hence the reference to IPCC (2018). However, our analysis is consistent with IPCC's most recent 6th Assessment Report Working Group III (April 2022) which shows that adaptation must remain the climate response anchor of vulnerable countries. The sooner vulnerable countries reach their resilience objectives, the more they get to contribute to the global decarbonization agenda.

² The country is among the top five in the weather-related Long-term Climate Risk Index since 2015 (<https://germanwatch.org/en/19777>) and top three in the World Risk Index between 2011 and 2018 (<https://reliefweb.int/sites/reliefweb.int/files/resources/WorldRiskReport-2020.pdf>)

³ This sentiment is expressed in the first Philippine NDC.

⁴ This refers to stand-alone sectoral laws enacted between 1999 and 2008 (e.g., Philippine Clean Air Act (1999), Ecological Solid Waste Management (2000), Philippine Clean Water Act (2004), Biofuels Act (2006), Renewable Energy Act (2008)). The Philippines started with an integrated, coordinated approach (e.g., Philippine Strategy for Sustainable Development (1987), Inter-Agency Committee on Climate Change (1991), Philippine Agenda 21 (1996)), however. See Buendia et al. 2018.

⁵ Department of Interior and Local Government (DILG) Memorandum Circular 2014-135.

⁶ E.O. 174 series of 2014.

⁷ See DBM-CC Joint Memorandum Circular No. 2015-01 and DBM-CCC-DILG Joint Memorandum Circular No. 2015-01

⁸ In DBM Budget Expenditure and Sources of Finance each year. In 2022, Climate Budget Briefs for 2021 and 2022 were released.

⁹ Monsod (2019). CCET submission rates between 2016 and 2020 have also been low (28 percent of 256 national agencies).

¹⁰ Department of Finance (DOF), February 2021. "In a word, we have higher stakes in this global effort than many other nations. I want us to be a world leader in making a difference in this battle against the climate crisis. I want us to pave the way in this area through our ambition" (<https://www.dof.gov.ph/dominguez-calls-for-bolder-collective-action-vs-climate-crisis/>)

¹¹ The target was raised in response to stakeholder reactions to the earlier target. See <https://www.rappler.com/nation/draft-document-philippines-lowers-carbon-emissions-reduction-target>.

¹² The 2015 INDC target of a 70% reduction by 2030 was also unsupported. The best estimate then was 44% (B-Leaders, 21 February 2016, p.153)

¹³ 2nd Multi-Stakeholder Consultation, 03 February 2021, Summary of the Proceedings, footnote 15.

¹⁴ Ibid.

¹⁵ "Why Forestry has to be excluded from the other NDC sectors for now", CCC, undated.

¹⁶ See also DBM-CCC-DILG Joint Memorandum Circular No. 2015-01.

¹⁷ Accounting issues are discussed in Ajani et. al (2013) and Grassi et. al. (2018).

¹⁸ Table 3. 45.9 MtCO_{2e} is 2.8 percent of 1659.5 MtCO_{2e}

¹⁹ The Philippines would not have been alone had it chosen to emphasize stronger adaptation ambition. Of the sixty-nine countries that submitted stronger NDCs in 2020, sixty-six strengthened their targets for adaptation (<https://thecvf.org/our-voice/news/extreme-threats-for-most-vulnerable-as-nations-fail-on-paris-promises>)

²⁰ For instance, 'Climate Action Tracker' excludes LULUCF from its analyses of "fair share effort". Dooley et al. (2021) and Crooks et al. (2017) also discuss this.

²¹ See Article 7, paragraph 1 and Article 4, paragraph 19.

²² For example, in Chapters 2 and 5 of IPCC (2018)

²³ Variable renewable energy denotes generators with variable output based on the availability of energy resources. Flexible capacity refers to facilities with fast ramping/fast start-up and shutdown capabilities connected directly to the transmission or distribution system that helps manage fluctuations in supply and addresses the variable delivery of renewable energy.

²⁴ These synergies are contemplated in the third NCCAP priority: 'climate-proofing and rehabilitation and improvement of energy systems infrastructures [sic].'

²⁵ See PEP, pp. 106-107 on Competitive Renewable Energy Zones.

²⁶ 2nd Multi-Stakeholder Consultation for the First Philippine Nationally Determined Contribution

(NDC), 03 February 2021. Energy resilience measures include the conduct of vulnerability assessments of systems and infrastructure, integration of structural adaptations into design, and implementation of infrastructure reinforcement measures, among others.

²⁷ An updated National Renewable Energy Program (NREP) 2020-2040, released in November 2021, includes the option of BESS.

²⁸ World Research Institute. "Climate Watch Historical GHG Emissions," (2018).

²⁹ Department of Transportation (DoTr) presentation at the 2nd Multi-stakeholder Consultation, 3 February 2021

³⁰ The TomTom Traffic Index 2020 (http://tomtom.com/en_gb/traffic-index)

³¹ HLURB (2017), p. 132.

³² Pontawe and Napalang (2018). The 'boundary system' is a vehicle rental arrangement among transport operators wherein drivers are compensated after meeting the 'boundary' or agreed fixed amount remitted by drivers to transport operators after a day of transport operations.

³³ Anna Bueno. "The Modernization Plan is changing Jeepney Drivers' Lives Forever," CNN Philippines (December 11, 2020).

³⁴ Department of Transportation. "Department Order No. 2017-11: Omnibus Guidelines on the Planning and Identification of Public Transport Services and Franchise Issuance," (2017)

³⁵ See <https://www.neda.gov.ph/the-national-transport-policy-and-its-implementing-rules-and-regulations/>.

³⁶ See <http://iilss.net/philippines-maritime-claims-about-archipelagic-baselines/> and <http://www.searoundus.org/data/#/eez/608?chart=catch-chart&dimension=taxon&measure=tonnage&limit=10>

³⁷ Around 832 municipalities, 57 cities and 64 provinces are considered coastal (Llarina 2019).

³⁸ See <https://www.cbd.int/countries/profile/?country=ph>

³⁹ Crooks et al. (2017) and Quevedo et al. (2021)

https://ec.europa.eu/environment/nature/climatechange/index_en.htm

⁴⁰ With irrigation, rice claimed about 77 percent of the agriculture budget (HDN 2013). This has fallen to 48 percent since the 2019 rice tariffication law (WB 2020).

⁴¹ Philippine Statistical Authority, Fisheries Situation Report, January to March 2021

⁴² Santos et al. (2011) and UNEP et al (undated, accessed at <https://www.sea-circular.org/country/philippines/>.) Fishermen have noted that plastics are smothering coral reefs, resulting in lower fish yields and ecosystem-wide impacts.

⁴³ This includes potential reef fisheries value, reef fisheries value, willingness-to-pay biodiversity value and tourism value.

⁴⁴ Acknowledging Crooks et al. (2017) who argues the strategic opportunity for East Asia.

⁴⁵ COA 2019 details problems with the National Greening Programme, including a decrease in mangrove hectares from 310, 305 hectares in 2010 to 303,373 hectares in 2015 (Figure 10 of the report). Problems include wrong site-selection, a typical problem if planting is done without a whole ecosystem in mind.

⁴⁶ This section draws heavily from Crooks et al. (2017) summarizing key findings.

⁴⁷ According to authors, this is an underestimate, since areas where drained organic soil remain, emissions will be continuing to this day.

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SUMMARY OF RECOMMENDATIONS

Given the multifaceted issues surrounding the Philippines, the Stratbase Albert del Rosario Institute published its book titled, “Beyond the Crisis: A Strategic Agenda for the Next President” to provide policy recommendations which considers lessons learned from the previous administrations and highlights points of action and intervention that the new government may opt to take in order to address current issues and to prepare for potential, future threats. The book brings into focus the domains of security, economy, and governance to further unpack its intersectionality and how these mutually reinforce one another. The Institute has crafted this strategic government agenda with resilience and sustainability in mind taking into consideration the next six years and perceivably beyond political timelines. The May 9, 2022 National Elections offers a unique opportunity of translating these societal concerns and challenges into promising reforms in the realms of social, economic, and political management and governance.

Hence, it is incumbent upon the leaders of the new government at the end of June 2022 to act on the multi-dimensional concerns that Philippine society is set to confront in the next six years and beyond. In this respect, the various challenges and opportunities presented and discussed in this section outline the broader and deeper confines of “politiká - affairs of the state” that the new government must attend to in collaboration with the different sectors of Philippine society.

FOREIGN POLICY AND NATIONAL SECURITY AGENDA

A Responsive and Strategic Foreign Policy Outlook in an Interconnected and Multipolar World

-Prof. Victor Andres 'Dindo' Manhit

A National Security Strategy (NSS) for the 17th Philippine President: The Case for A Limited Balancing Strategy

-Renato C. De Castro, Ph.D

- Implement a clear, cohesive and consistent foreign policy direction prioritizing the country's national interests – in politics and security, economic diplomacy and welfare of the Filipinos
 - Integrate current and emerging trends and developments in Philippines' external environment to prioritize responsiveness and future-oriented direction of Philippine foreign policy
 - Strengthen the country's role in international politics and its inherent state power by developing its military, economic, scientific, and cultural capabilities and strengthening alliances and strategic partnerships
-
- Formulate a new National Security Strategy based on the 2016 Arbitral Ruling to direct attention and resources
 - Incorporate non-traditional security priorities, such as public health, in the National Security Strategy and the National Development Plan
 - Continue the efforts to the Armed Forces of the Philippines Modernization Program with a specific focus on asymmetrical warfare capabilities
 - Increase the Philippine defense budget to effect these reforms especially with the Armed Forces of the Philippines Modernization Program and to allocate funds to resources needed in addressing current and potential security threats

*Non-Traditional Security
Threats to Peace and Security
in the Indo-Pacific*

-Mely Caballero-Anthony, Ph.D

- Institutionalize and streamline comprehensive risk assessment and management processes to better inform national policies
- Harness resources and finances with partners, international institutions and the private sector implement and mobilize measures in addressing these threats
- Establish resilient response systems, especially for food security, in preparation for disruptive calamities or crises through capacity-building, multisectoral engagement and cooperation, investment allocation for research and development and technologies
- Deepen cooperation with neighboring states to expand and participate within multilateral frameworks given the transnational nature of these non-traditional security threats

*The Great Cauldron: China,
US, and the New Cold War in
the Indo-Pacific*

-Richard J. Heydarian

-
- Leverage and upgrade Philippines' existing defense agreements with key regional powers, including the US, Australia, Japan and South Korea
 - Pursue and ensure the operationalization of the Philippine-United States alliance through the Enhanced Defense Cooperation Agreement and Visiting Forces Agreement; and revisit the Mutual Defense Treaty to maximize interoperability given the emerging threats posed by China
 - Maintain a firm, consistent and uncompromising position over the West Philippine Sea in accordance to the 2016 arbitral ruling and international law
 - Implement a whole-of-nation approach in upholding the country's rights over the West

Philippine Civil and Maritime Security: Transforming from Archipelagic to Maritime Power

-Chester B. Cabalza, Ph.D

Philippine Sea through multistakeholder consultations, capacity building efforts and agency empowerment in all levels

- Consider strategic approaches to address grey zone including maintaining operational presence and providing resources and capacity needed to support this across Philippine territory
- Strengthen deterrence and fleet policies through the improvement of AFP's organization, human and information capital, establishment of a culture of jointness and development of skills, professionalism and motivation of forces
- Strategy as integrated in defense strategies and plans, and implemented through the Philippines' naval diplomacy

ECONOMIC AND DEVELOPMENT AGENDA

Philippines: Pursuing an Investment-led, More Sustainable Economic Growth

-Diwa C. Guinigundo

- Pursue policies and legislative measures that promote investments to address the health and economic ramifications of the pandemic –anchoring growth and resilience model on investments and building cross-border partnerships and collaborations for long-term solutions in protecting against economic crises and stress
- Strengthen the health care system with investments filling the caps in this sector addressing the impact of COVID-19 and potential issues that may arise
- Refocus on governance issues such as poverty and inequality and corruption and

Reducing Inequality in the Philippines: Rationale and Reform Options

-Ronald U. Mendoza, Ph.D

bureaucracy for sustainable growth and development

- Expand market reach and investment climate by upgrading infrastructures, including digital

• Recognize political and electoral reforms, not economic reforms alone, should be prioritized to effect real reform to address deep-seated structural weaknesses

• Promote inequality reduction in the lens of governance to achieve political stability, crisis resilience and sustained economic development

• Review implementation strategies of passed laws and revisit stalled legislative measures that address the inequality issue, such as TRAIN, Bangsamoro Basic Law, Rice Tariffication Law, Universal Health Care Law, 4Ps Law; and the Rightsizing the National Government, Freedom of Information Law, Anti-Political Dynasty Law etc.

Building Back Better towards Inclusive Growth with Innovative Public Sector Governance

-Charlotte Justine Diokno-Sicat, Ph.D

• Strategize fiscal consolidation by balancing with recovery through infrastructural and human capital investments

• Increase the participation and contribution of local government units to economic recovery through strengthened development planning and investment programming, enhancing local revenue mobilization, providing alternative arrangements for devolved goods and services

• Implement institutional and governance innovations that cut across the public sector including data and information systems and harnessing digitalization

Issues for the Next Administration's Development Agenda: On Human Capital and Labor Markets

-Vicente B. Paqueo, Ph.D
Michael R.M. Abrigo, Ph.D

- Recalibrate the development agenda on education towards prioritizing quality of education and learning to be at pace with global developments in knowledge and technology and likewise be competitive
- Prioritize labor productivity growth by tempering the use of traditional employment protection legislation, upskilling and acquiring competencies for workers, and strengthening unemployment insurance
- Revisit existing labor laws and policies to be more responsive to changing labor and employment environment vis-à-vis current trends and long-term economic plans

GOVERNANCE, HEALTH AND ENVIRONMENT AGENDA

Rethinking Public Spending Priorities Towards an Inclusive Recovery

-Zy-za Nadine N. Suzara

- Rethink and recast budget priorities towards boosting health systems and promoting inclusive economic recovery – including support for the labor force, social protection, education and infrastructures
- Implement structural reforms that increases government agencies and local governments' capacity to utilize funds in times of crisis which includes the planning, budget and procurement process and its monitoring and evaluation systems
- Re-establish open and participatory mechanism to ensure transparency and accountability on funds, especially with the COVID-19 funds

*Governance Agenda for
Development in a
Post-COVID-19 Philippines*

-Francisco A. Magno, Ph.D

- Build a comprehensive approach on corruption prevention strategic to include institutional capacity building and higher transparency and accountability in integrity development measures/programs for all levels of the career service
- Enable the interoperability of government in the delivery of service through e-governance to manage the interdependencies across areas of government and among levels of implementation in national government agencies and local government units
- Strengthen and identify areas of convergence for different levels of government in development planning, investment programming and budgeting
- Anchor the governance agenda on the Sustainable Development Goals through localization the context of the need to mobilize research capacity, analyze data, harness technology, and build knowledge partnerships to generate solutions to real-world problems

*Lessons and Prospects
in Philippine Political
Governance: Cutting Across
Regimes from Marcos
to Duterte*

-Rizal G. Buendia, Ph.D

-
- Promote and strengthen a multi-party system to reinforce the use of proportional representation where political parties are recognized for platforms and programs rooted on principles and ideologies
 - Pursue holistic governance by shifting efforts from being problem-oriented to needs-oriented based on public sentiments – requiring the public sector to prioritize online governance infrastructure and integrated governmental structure for better coordination and collaboration, and active bureaucracy with a civil service development plan committed to public service

*Digitalization Agenda
2022: Towards a Resilient
Philippines Through Digital
Transformation and Inclusion*

-Sherwin E. Ona, Ph.D

- Develop a Philippine digitalization strategy and roadmap that contains goals, phases and milestones in achieving digital transformation, addressing the digital divide and securing digital infrastructure
- Support the creation of communities of practice which will support the research and development and the creation of innovation hubs
- Convene a Digitalization Summit aimed at encouraging the participation of the private sector, civil society, and the academe among others to determine the priority areas of the digitalization strategy
- Craft new laws on digital governance for service integration, interoperability, and data governance in the public sector; and cyber defense posture to address current and future threats

*Beyond Health Measures:
Towards a Genuine People's
Health Agenda*

*-Eleanor A. Jara M.D
Magdalena A. Barcelon M.D
Charina Anne D. Berza*

-
- Develop a free, comprehensive and progressive national health care system through allocation of an adequate budget; reorganization of the governance, organization and structure of the public health care system; and push for free health services through social services funding
 - Anchor the public health system on a community-based approach with the reorientation of leadership; prioritization towards vulnerable groups; promotion of general health and prevention of disease; and operationalization of necessary infrastructures and components
 - Build a clear human resource development plan geared towards equitable distribution of personnel and resources; proper measures

*Improving the Philippine
Agriculture Sector by
Establishing Food
Production Areas*

-Carlos P. David, Ph.D

for labor policies for health professionals; and improvement of health sciences education accessibility and long-term planning

- Encourage the growth of a local pharmaceutical industry to expand local production capacity and lessen dependence on imports

• Adapt a climate-resilient agriculture sector that would advance production and growth through a government-industry synergized strategy

- Promote crop overproduction and food processing with a guaranteed purchase agreement with the private sector and/or government

• Optimize smallholder farms instead of mechanization and the promotion of land consolidation strategies

• Encourage the creation of social enterprise farms which will be the main training ground for our next generation of farmers – an ecosystem consisting of these important elements is what is referred to as Food Production Areas

*Accelerating Resilience and
Climate Change Adaptation:
Strengthening the Philippines'
Contribution to the Global
Decarbonization Agenda*

*-Toby Melissa C. Monsod, Ph.D
Sara Jane Ahmed
Golda P. Hilario*

• Shift away from greenhouse gas inventory-centric approach towards a climate change adaptation and resilience-anchored and sustainable development-contextualized approach for power and energy, transportation, among others

- Build robust community ownership for climate action and leverage opportunities based on Philippines' own advantages, including the biodiversity of its marine and coastal resources

The Stratbase Albert del Rosario Institute continues to recognize that issues and developments occurring in the national level, whether current or emerging, manifests from various causes and have uncertain levels of degree in terms of effect. As such, the Institute has always been at the forefront of advocating for a multisectoral and whole-of-society approach in understanding and providing strategic solutions in order to minimize higher risks and better capture opportunities. Through this book, the Institute hopes to spark conversations and discourse, motivate further participation and involvement, and create more positive change with the principal goal of bringing the Filipino people towards a better Philippines.

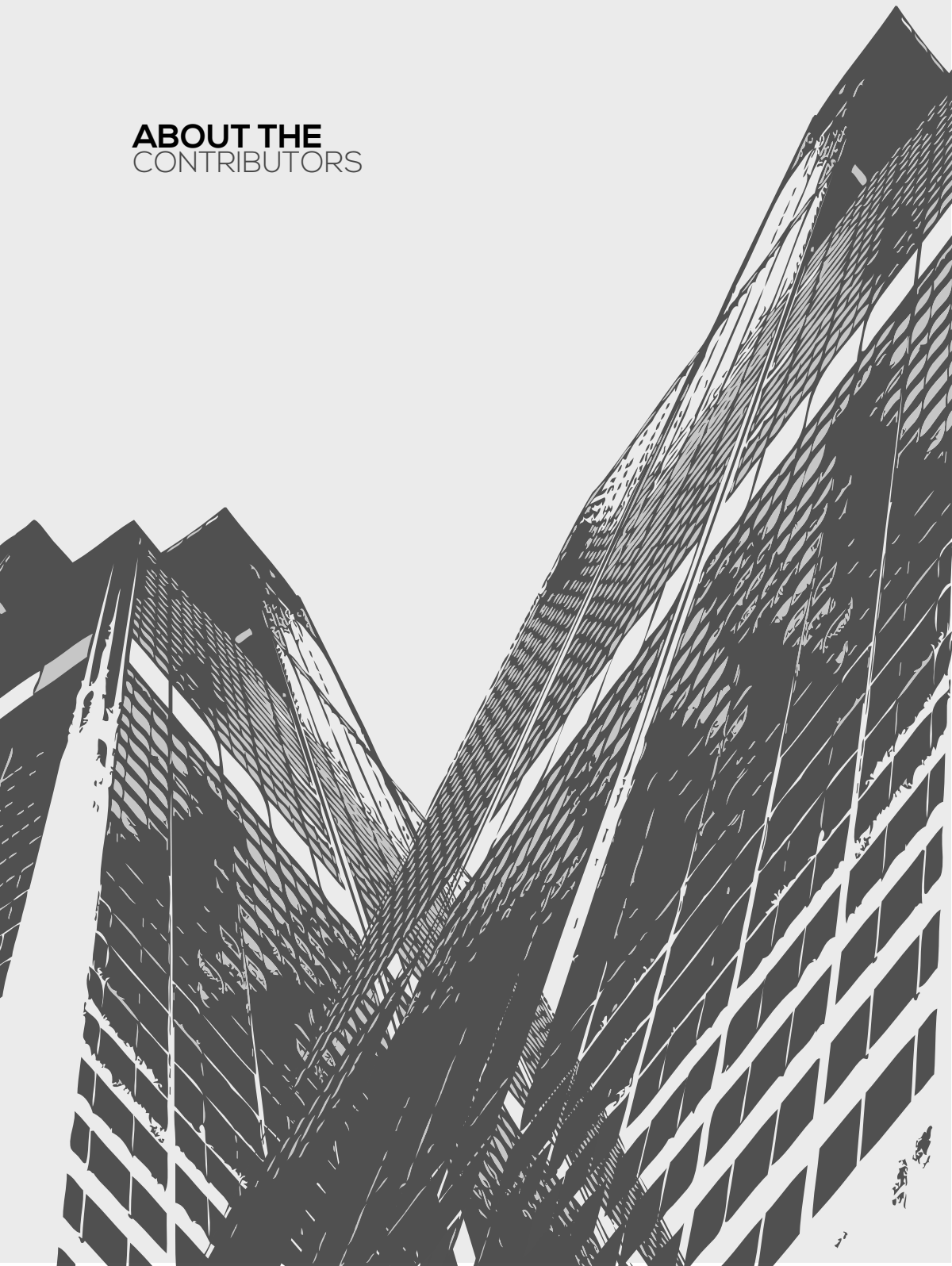
Our mission since the last 2016 Presidential election in the Institute “has always been to nurture and advocate policy agendas and citizen-led reform initiatives towards the pursuit of strategic regional balancing and a development-oriented system of governance that is just, responsive, transparent, and accountable. We aim to disrupt the Philippine policy process and shape the future of the Filipino Nation and to think beyond politics.”

In 2016, I wrote “Whoever is elected, whoever gets appointed, our mission will be to transform our sagacious advice into policy initiatives. We must not be afraid to be disruptive and break the myopic political cycle that has hindered the velocity of growth and prosperity that all Filipinos have a right to enjoy”.

Today we need more than ever a disruptive leadership and an innovative government that will put strategic and equalizing reforms in place. A government ready to harness the best talents of the Philippine Republic, a government with a great vision, an integrated long term strategy, and the iron will to work, under the rule of law.

Victor Andres “Dindo” C. Manhit
President, Stratbase ADR Institute

ABOUT THE CONTRIBUTORS



EDITOR

Prof. Victor Andres “Dindo” C. Manhit

Founder and President

*The Stratbase Group and Stratbase ADR Institute
for Strategic and International Studies*

Since he founded Stratbase in 2004, he has provided top-level strategic analysis and thought leadership on global issues in the Philippines. He identified investment and business opportunities, gathered critical intelligence to overcome regulatory challenges, and developed deep relationships in key departments and agencies. With his extensive experience, he continues to help Stratbase clients understand the interplay between business and government and the impact of legislative, regulatory, and electoral outcomes on their business strategies.

As a public policy strategist, he thinks beyond politics, draws on a combination of backward looking, fact based, data driven analytics with forward looking thinking, imagination and strategic policy options. Professor Manhit has built winning public affairs campaigns integrating message development, strategic communications, and the mobilization of grassroots support. Concurrently, he is Philippine Country Head of BowerGroupAsia (BGA), a leading strategic advisory firm specializing in the Asia-Pacific.

He was a former Chair and retired Associate Professor of the Political Science Department of De La Salle University and has authored numerous commentaries and papers on geopolitical issues, governance, and political reforms.

His research interest and field of specialization have led him to pursue active involvement in legislation, bureaucratic work, and civil society advocacy. Among the government positions he held include Undersecretary for External Affairs and Special Concerns of the Department of Education, Culture and Sports and Deputy Secretary for Administration and Financial Services of the Philippine Senate. Meanwhile, his legislative experience encompasses the 8th, the 9th, 10th and the 12th Congress as Chief of Staff of the late Senate President Edgardo J. Angara and senior policy research adviser in key Senate Committees, such as Education, Agriculture, Economic Affairs, Social Justice and Electoral Reforms, and Constitutional Amendments and Revision of Laws.

After his stint in government, he became involved with different consortiums and networks of civil society groups. His civil society agenda range from governance reform to environment stewardship, as Lead Convenor of citizen-led initiative, Democracy Watch Philippines, and Convenor of pro-industry group, Philippine Business for Environmental Stewardship (PBEST).

He is a Fellow of the Foundation for Economic Freedom (FEF), an organization dedicated to advancing economic and political liberty and other market-oriented reforms and a member of both the Management Association of the Philippines (MAP), the Philippines' leading organization committed to promoting management excellence for nation-building and the Institute of Corporate Directors (ICD), dedicated to the professionalization of Philippine corporate directorship and an active member of its Strategy Execution Pathway (StEP) Committee.

As a member and adviser of the Board of the Philippine Trade Foundation (Phils Inc.), Professor Manhit contributes to the crafting of initiatives geared to attract investments and promoting balanced trade.

His international reach is evident in his key role in the establishment of the U.S.-Philippines Strategic Initiative (USPSI). The trans-Pacific effort underlines the critical linkage of economic ties between the U.S. and the Philippines as a foundation for enduring security relations through research and programs. He is also an advisor to the Board of Asia Society Philippines, which aims to strengthen relationships, deepen understanding and bridge differences across the Philippines, Asia and the United States. He was appointed as one of the ASEAN Regional Forum Experts and Eminent Persons (ARF-EEPs) by the Department of Foreign Affairs.

Professor Manhit obtained his Master's Degree in Public Administration and Bachelor's Degree in Philippine Studies (Major in Political Science and History) from the University of the Philippines. A member of Phi Gamma Mu International Honors' Society Beta Chapter, he specializes in Strategic Studies and Management, Legislative Research, and Public Policy Analysis.

Today, he regularly contributes articles and columns to leading newspapers, Philippine Daily Inquirer and BusinessWorld.

CONTRIBUTORS

Dr. Renato De Castro is a distinguished university professor at the International Studies Department, De La Salle University, Manila, and holds the Dr. Aurelio Calderon Chair in Philippines-American Relation. He was a visiting fellow in the National Institute for Defense Studies (NIDS) of the Japanese Ministry of Defense in the summer of 2018. He was based in Japan Institute of International Affairs (JIIA) from June to August 2017 as a visiting researcher. From September to December 2016, he was based in East-West Center in Washington D.C. as the U.S.-ASEAN Fulbright Initiative Researcher from the Philippines. He is an alumnus of the Daniel Inouye Asia-Pacific Center for Security Studies in Hawaii, U.S.A. In 2009, Dr. De Castro became the U.S. State Department ASEAN Research Fellow from the Philippines and was based in the Political Science Department of Arizona State University.

Professor De Castro served as a consultant to the National Security Adviser (NSA), Secretary Ceasar Garcia, of the National Security Council during the Aquino Administration (2010-2016). He conducts several professional courses on International Relations, Strategic and Security Studies in the National Defense College (NDCP), Special Intelligence Training School (SITS) of the Intelligence Service of the Armed Forces of the Philippines (ISAFP), General Staff College of the Philippines, and the Foreign Service Institute (FSI). As a member of the Board of Trustees of the Albert Del Rosario Institute of Strategic and International Studies (ADRI), he writes monthly opinion columns for the Philippine Star and Business World. He has written over 100 articles on international relations and security that have been published in a number of scholarly journals and edited works in the Philippines, Japan, South Korea, Canada, Malaysia, France, Singapore, Taiwan, Germany, the United Kingdom, Australia, and the United States. He earned his Ph.D. from the Government and International Studies Department of the University of South Carolina as a Fulbright Scholar in 2001 and obtained his B.A. and two master's degrees from the University of the Philippines.

Professor De Castro is the Convenor of ADR Institute's National Security and East Asian Affairs Program.

Dr. Mely Caballero-Anthony holds the President's Chair of International Relations and Security Studies of the Nanyang Technological University (NTU) in Singapore. Aside from being a professor of International Relations, she is also the Head of the Centre for Non-Traditional Security Studies (NTS) at the S. Rajaratnam School of International Studies (RSIS) at NTU. Dr. Caballero-Anthony is currently a member of the Asia-Pacific Leadership Network on Nuclear Non-Proliferation and Disarmament (APLN) and is the Secretary-General for the Consortium on Non-Traditional Security Studies in Asia.

Dr. Caballero-Anthony's research interests include regionalism and multilateralism in the Asia-Pacific, global governance, human security, non-traditional security, nuclear security, and conflict prevention. She has published extensively on a broad range of political and security issues in Asia-Pacific in peer-reviewed journals and international academic presses. Her works include *Nuclear Governance in the Indo-Pacific* (Routledge, forthcoming 2022), *Negotiating Governance on Non-Traditional Security in Southeast Asia and Beyond* (New York: Columbia University Press, 2018), *An Introduction to Non-Traditional Security Studies* (London: Sage Publications Ltd, 2016), and *Human Security and Climate Change* (UK: Routledge, 2014).

Dr. Caballero-Anthony has served as the Secretary-General of the Consortium on Non-Traditional Security Studies in Asia since 2008. From 2015-2017, she was Vice President at-large of the Governing Council of the International Studies Association (ISA) and is currently a member of the ISA's Global South Task Force. She held a visiting fellowship at the Elliott School of International Affairs, George Washington University, in 2015. From 2013-2017, Dr. Caballero-Anthony was a member of the UN Secretary-General's Advisory Board on Disarmament Matters. She was also the principal investigator of the MacArthur Asia Security Initiative project of Internal Security Challenges in Asia and Cross-Border Implications. Dr. Caballero-Anthony has actively participated and shared her policy recommendations regarding non-traditional security issues at various events organized by the Stratbase ADR Institute.

Richard J. Heydarian is a non-resident fellow at the Stratbase Albert Del Rosario Institute and an Asia-based academic, columnist, and policy adviser. He is a Professorial Chairholder on Geopolitics at the Polytechnic University of the

Philippines and a Special Lecturer at San Beda University. Previously, Professor Heydarian was a visiting fellow at National Chengchi University in Taiwan and an assistant professor in political science at De La Salle University-Manila (DLSU).

His latest books are “The Rise of Duterte: A Populist Revolt against Elite Democracy” (Palgrave Macmillan, 2017) and “The Indo-Pacific: Trump, China, and the New Global Struggle for Mastery” (Palgrave Macmillan, 2019). His forthcoming book is “China’s New Empire” (Melbourne University Press, 2022).

Among Professor Heydarian’s latest academic works are “Penal Populism in Emerging Markets” (Cambridge University Press, 2020) and “The Ascent of Asian Strongmen: Emerging Market Populism and the Revolt Against Liberal Globalization” (Springer 2020); “Philippine Politics: From Rizal to Duterte” (Oxford University Press, 2020), “Subaltern Populism: Dutertismo and the War on Constitutional Democracy” (Cambridge University Press, forthcoming). He is also a regular contributor to leading global think tanks such as the Center for Strategic and International Studies (CSIS), Brookings Institution, and Council on Foreign Relations (CFR). Prof. Heydarian has also written various special studies and occasional papers for the Stratbase ADR Institute.

Dr. Chester B. Cabalza is the President and Founder of the International Development and Security Cooperation, a policy research organization focused on transnational development and regional security issues. Moreover, he is currently a Senior Lecturer in the graduate program of the Department of Anthropology at the University of the Philippines-Diliman and a Faculty-In-Charge at the Development Academy of the Philippines (DAP). In addition, he is currently an environmental impact assessment (EIA) licensed Reviewer of the Environmental Management Bureau of the Department of Environment and Natural Resources (DENR).

Previously, Dr. Cabalza was the Executive Fellow of the Council of Fellows and the Vice President for the Center of Research and Strategic Studies at the DAP. He was also a past consultant of the Japan International Cooperation Agency (JICA) and the World Bank. He was also an Associate Professor at the National Defense College of the Philippines (NDCP).

Dr. Cabalza has published in several peer-reviewed local and international journals in the purview of Security Studies. He has also presented his papers and

headed delegations in Australia, New Zealand, Turkey, Estonia, Finland, Spain, India, China, Taiwan, Japan, South Korea, Dubai, Qatar, United States, France, The Netherlands, and all the ten Southeast Asian countries. He co-authored books entitled “Perspectives on Terrorism in the Philippine Context” (2018) and “The Rise of Philippinization (Philippinization is not Finlandization)” (2021).

Dr. Cabalza earned his doctorate in Anthropology from the University of the Philippines. For his dissertation, he wrote on the subject of the anthropology of security where he wrote on the strategic culture of the South China Sea, defense, and security in the Philippines and the Asia-Pacific. He was also among the scholars who underwent a Fellowship sponsored by the US Department of State’s Study of the United States Institutes (SUSIs) on US National Security and Policymaking under the stewardship of the University of Delaware in 2017.

DG Diwa C. Guinigundo served at the Bangko Sentral ng Pilipinas for 41 years, retiring from service as the Deputy Governor for the Monetary and Economics Sector where he handled monetary policies and operations, international relations and operations, loans and credit, currency management, as well as other various aspects of central banking and macroeconomic policy.

A career central banker, Mr. Guinigundo was Assistant Governor for Monetary Policy and International Operations prior to his appointment as Deputy Governor in 2005. He was the driving force behind the BSP’s advocacy for economic and financial literacy to address the issue of poverty. He strongly advocated for the establishment of Credit Surety Funds all over the Philippines, which helped micro, small, and medium-sized enterprises (MSMEs) gain better access to credit.

Mr. Guinigundo was at the forefront of regional financial integration for over 20 years. From 1992 to 1994, he was Head of Research at the Southeast Asian Central Banks (SEACEN) Centre in Kuala Lumpur. He served as the head of the technical group for the Chiang Mai Initiative in 2000-2001, and chaired the ASEAN +3 meetings of finance and central bank deputies at various points including the ASEAN Senior Level Committee twice. Mr. Guinigundo also chaired the Executives’ Meeting of East Asia-Pacific Central Banks (EMEAP) Monetary and Financial Stability Committee of central bank deputies. From 2001 to 2003, he was an Alternate Executive Director in the Philippines’ constituency at the International Monetary Fund in Washington, D.C.

He also writes weekly columns for Manila Bulletin and BusinessWorld. He is a member of the Advisory Panel of the Institute for Financial Economics of Singapore Management University.

He obtained his degree in AB Economics, cum laude, at the University of the Philippines School of Economics. He earned his M.Sc. degree in Economics at the London School of Economics as a scholar of the Central Bank of the Philippines.

Dr. Ronald U. Mendoza had a long career in education, development policy formulation, and economic research where he collaborated with government institutions, international groups, the private sector, and civil society organizations before he assumed his post as the head of the Ateneo School of Government.

Dean Mendoza started his work with the Ateneo de Manila University when he served as an Adjunct Lecturer from 1995 to 1996. Immediately after this, he branched out to work with the Ateneo Center for Economic Research and Development (ACERD), where he worked as a Graduate Research Assistant for a year. After this brief stint with ACERD, Dean Mendoza spent a considerable amount of time working outside the Ateneo. Three of these years were spent at Fordham University in New York, where he served as a research assistant from 1996 to 1998, and Adjunct Faculty from 1998 to 1999. Dean Mendoza then went on to work as a Teaching Fellow at Harvard Kennedy School from 1999-2001. Following his work at the Harvard Kennedy School, he worked as an economist for nine continuous years. First, he worked as an Economist for UNDP for seven years from 2001-2008. After this, he worked as an economist for UNICEF from 2008 to 2010. Immediately before being appointed as Dean, Dean Mendoza served as both Director of the Asian Institute of Management Policy Center as well as Associate Professor of Economics from 2011 to 2016.

His work has appeared in peer-reviewed economics and policy journals, and he has also published several books on international development, public finance, and international cooperation. His work includes *Providing Global Public Goods: Managing Globalization* (Oxford University Press 2003), *The New Public Finance: Responding to Global Challenges* (Oxford University Press 2006), and *Children in Crisis: Protecting the Vulnerable and Promoting Recovery for All* (Palgrave MacMillan 2012). His work, *Building Inclusive Democracies in ASEAN* (Anvil Press 2015), won the Outstanding Book Award for 2016 of the National Academy

of Science and Technology. He has also co-authored a major study on the impact of political dynasties on poverty in the Philippine countryside.

Dean Mendoza has an extensive educational background in development, governance, and economics, which acts as the backbone of his research and work with the public sector as well as non-government organizations. He obtained his Bachelor's Degree in Economics (Honors Program) from the Ateneo de Manila University in the Philippines, his Masters in Public Administration and International Development (MPA-ID) from the John F. Kennedy School of Government, Harvard University, and his M.A. and Ph.D. in Economics from the Fordham University Graduate School of Arts and Sciences.

Dr. Charlotte Justine Diokno-Sicat is a Research Fellow at the Philippine Institute for Development Studies and the President of the Philippine Economic Society for 2022. She has a Ph.D. in Business Administration, Ph.D. in Economics candidacy, an M.S. Management and an M.A. and B.S. Economics all from the University of the Philippines (U.P.) Diliman. Her academic and professional experience has focused on public sector economics and political economy. Her doctoral dissertation was on Philippine local government spending and voter preferences, testing various political economy models in the Philippine context. While at the Department of Budget and Management, she worked on reforms to enhance transparency in budget operations and regional and higher education concerns. As a former professor at UP Diliman, she taught courses on public sector and development economics and fiscal and monetary policy.

Her academic research has focused on pricing policy for publicly provided private goods; the effects of decentralization on the spending patterns of local government units and various determinants of fiscal deficits all in the Philippine context. Her published articles cover a broad range of public sector issues such as shifts in Philippine cigarette excise tax policies; local government conditional grants; local water sector supply governance; and public expenditure review of social protection programs.

She is also an international consultant in the areas of public expenditure and financial management at national and local government levels. Some work done include: Drafting an Operations Manual and Guidelines for Shock-Responsive Social Protection in the Bangsamoro Autonomous Region of Muslim

Mindanao (BARMM) (United Nations Children’s Fund, Team lead); Study on the Implications in the National Capital Region and Considerations for Forming the Federal Administrative Region (Department of the Interior and Local Government, NCR); and, Philippine (Metro Manila) case study on municipal development planning (United Nations Economic and Social Commission for Asia and the Pacific).

Dr. Vicente B. Paqueo is a Distinguished Visiting Fellow of the Philippine Institute for Development Studies (PIDS). He is currently a member of the board of the Social Weather Stations (SWS) and a non-resident fellow of the Stratbase Albert del Rosario Institute.

A seasoned economist, Dr. Paqueo was a Professor at the University of the Philippines School of Economics. He received the Outstanding Young Scientist Award for Human Resources Economics from the Philippine National Academy of Science and Technology (NAST) in 1983. He served as a Lead Economist at the World Bank in Washington, D.C. and as a former Lead Consultant of the Asian Development Bank (ADB) Social Protection Support Project for the Pantawid Pamilya Pilipino Program (4Ps).

Dr. Paqueo was also a consultant at various times of other organizations, including the International Labour Organization (ILO), World Health Organization (WHO), United Nations Children’s Fund (UNICEF), United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), National Economic and Development Authority (NEDA), Commission on Population and Development (POPCOM), Population Center of the Philippines, and the Department of Social Welfare and Development (DSWD).

He published numerous articles and books and presented papers in local and international conferences on a wide array of topics, including social expenditures, cost-effective methods for schooling, labor force participation, and healthcare utilization. One of his notable publications is entitled “Supply-Side Improvement and the Learning Achievement of the Poorest Children in Indigenous and Rural Schools: The Case of PARE”. This paper found that an increase in learning achievement is possible for rural and indigenous schools.

Dr. Paqueo received his Bachelor of Arts degree, cum laude, at the University of the Philippines School of Economics and obtained his Ph.D. from the same

institution. He was appointed as a visiting post-doctoral fellow at Princeton University in New Jersey with a grant from the Population Council.

Dr. Michael R.M. Abrigo is a Senior Research Fellow at the Philippine Institute for Development Studies (PIDS) where he studies the welfare implications of population dynamics and social sector policies, among other research interests. He has published numerous academic papers in journals such as *Stata Journal*, *National Tax Journal*, *Population and Development Review*, *Journal of Applied Econometrics*, *Lancet*, and *Nature*. He obtained his MA and PhD. in Economics from the University of Hawai'i, and his BA (magna cum laude) and Master of Statistics (MoStat) degrees from the University of the Philippines.

Zy-za Nadine Suzara is the Executive Director of the Institute for Leadership, Empowerment and Democracy (iLEAD), a non-stock, non-profit policy think tank that focuses on public finance, good governance, and strengthening democratic institutions. She was formerly the Public Finance Fellow of the Institute as well.

Ms. Suzara is also currently a research fellow for the Access Bangsamoro Program of the Ateneo School of Government. She is a Disaster Risk Reduction (DRR) budget consultant for The Asia Foundation.

Her career spans over 15 years of work in government, the international development sector, and civil society. She previously worked at the Department of Budget and Management providing policy research to the Cabinet Secretary. She had researched, developed, and edited the Department of Budget and Management's Manual of Operations for National Government as well. She is regularly tapped by legislators in both the Philippine Senate and House of Representatives as a technical and policy consultant on the national budget. She has spoken on topics of the national budget and inclusive recovery in various fora organized by different organizations and civil society groups.

She has worked with the United States Agency for International Development (USAID) in various capacities across a wide array of topics: from the national budget to marine biodiversity and environmental concerns. She was a Communications Specialist for the USAID Fish Right Program, which aims to achieve a ten-percent increase in fish biomass in Calamianes, Southern Negros, and Visayan Seas. In 2018, she was a Technical Writer Specialist for the USAID

Facilitating Public Investment Project. Prior to that, she was a consultant for the USAID ECOFISH Project from 2016 to 2017, where she produced case studies on best practices and innovative solutions in addressing sustainable fisheries and marine biodiversity conservation challenges in the Philippines. From 2005 to 2006 she was the Project Assistant for the USAID Clean Air Project.

Dr. Francisco A. Magno is a researcher and educator whose work covers political science, development studies, comparative politics, environmental studies, policy analysis, and local government development. He is currently a Senior Fellow and the Founding Director of the Jesse M. Robredo Institute of Governance at De La Salle University. In addition to this, Dr. Magno is also an Associate Professor and former Chairperson of the Political Science Department and the former Director of the Social Development Research Center at De La Salle University-Manila.

Dr. Magno also holds positions in multiple civil society organizations with a focus on good governance. He is currently a Trustee and Program Convenor at the Stratbase Albert Del Rosario Institute. He also sits at the National Steering Committee of the Open Government Partnership-Philippines, National Leadership Council of the Sustainable Development Solutions Network-Philippines. In addition, Dr. Magno is the President of the Local Governance Training Institutes-Philippine Network and Vice President of the International Academy of CIO. He has also contributed his time and expertise to academic groups, having served as the President of the Philippine Political Science Association from 2015 to 2017. Dr. Magno has an extensive educational background in political science. He obtained his B.A. and M.A. degrees in Political Science from the University of the Philippines. After this, he went on to obtain his Ph.D. in Political Science from the University of Hawaii on an East-West Center Fellowship.

Among his research interests and policy advocacies are transparency in governance, the use of IT for good governance, and e-government. Dr. Magno has a rich body of published research on political science and governance. His work appears in numerous local and international academic journals, including *Pacific Affairs*, *Security Dialogue*, *Peace Review*, *International Review of Public Administration*, *Environmental History*, *Philippine Political Science Journal*, and *Philippine Studies*. Some of his works include “Public Participation and Fiscal Transparency in the Philippines,” “The Long March to Transparency:

Institutionalizing FOI in the Philippines,” “Strengthening Local Disaster Risk Reduction and Management,” and “Combining Automatic and Manual Approaches: Towards a Framework for Discovering Themes in Disaster-related Tweets.”

As a result of his work as an educator and contribution to his fields of study, Dr. Magno has received considerable recognition. In 2000, he received an Outstanding Young Scientist Award from the National Academy of Science and Technology of the Philippines. Moreover, Dr. Magno is listed as one of the Top 200 Scientists based in Philippine Institutions of The Webometrics Ranking of June 2016.

Dr. Rizal G. Buendia is an independent political analyst, consultant, and researcher in Southeast Asian Politics and International Development based in Wales, UK. He is the Philippine Country Expert of the Global V-Dem Institute, University of Gothenburg, Sweden, a Development Consultant of Altair Asesores Consultancy, Madrid, Spain, an Honorary Fellow of the Bangsamoro Parliament’s Policy Research and Legal Services of the Bangsamoro Autonomous Region of Muslim Mindanao (BARMM), and a Non-Resident Fellow of Stratbase-Alberto Rosario Institute, a think tank consulting firm in the Philippines.

He was a Teaching Fellow at the Politics and International Studies Department and the Department of Development Studies, School of Oriental and African Studies (SOAS), University of London. He was also the previous Chair and Associate Professor at the Political Science Department, De La Salle University-Manila, Senior Lecturer at the National College of Public Administration and Governance - University of the Philippines-Diliman, and Special Lecturer at the Polytechnic University of the Philippines.

He authored the book, *Ethnicity and Sub-nationalist Independence Movements in the Philippines and Indonesia: Implications for Regional Security* (2002) and published a number of major monographs on governance, Bangsamoro, ASEAN, and regional geopolitics.

Dr. Buendia was a recipient of the Commission on Higher Education’s (CHED) Republica Award both at the Regional (NCR) and National levels in the Social Science, Economics, Education and Humanities category in 2007. He also held the Ambassador Carlos J. Valdes Professorial Chair in Political Economics, the Alfredo S. Lim II Distinguished Professorial Chair in Public Administration, the

Yuchengco Professorial Chair in Southeast Asian Studies, and Visiting Professor at the Waseda Institute of Asia-Pacific Studies, Tokyo, Japan.

He obtained his Doctor of Philosophy (Ph.D.) degree in Political Science at the National University of Singapore (NUS) under the NUS by-research Ph.D. scholarship. He earned his Master of Public Administration (MPA) at the University of the Philippines-Diliman.

Dr. Sherwin E. Ona is an associate professor and the chairperson of the Department of Political Science and Development Studies of the De La Salle University-Manila (DLSU). Previously, Dr. Ona was the former research and advanced studies director of the College of Computer Studies of the DLSU. His research interests include the areas of open government, digitalization, human security, cybersecurity policies, and disaster informatics.

For his research endeavors, Dr. Ona was part of the iGov summer program of the State University of New York from 2009 to 2010 and he also managed the e-Participation in rural communities project supported by the International Development Research Cooperation-Canada (IDRC) in 2011. In 2012, he was part of the IDRC's "Open Data in Developing Countries", a global network of international research teams that examined the challenges of open government data in developing and least developed economies. In 2017, Dr. Ona served as a senior team leader for the Newton disaster informatics and innovation spaces project sponsored by the British Council and the Commission on Higher Education (CHED).

Dr. Ona also served as a technical consultant to several government agencies and international organizations including the Commission on Information and Communications Technology in 2005, the Department of Science and Technology-ICTO in 2012, the Commission on Higher Education in 2017, and the Department of Information and Communications Technology in 2018. In 2019, he was appointed as a consultant of the United Nations-Asia Pacific Center for Information and Communication Technology for Development (APCICT) on Data Governance and Interoperability.

Dr. Ona is a senior fellow of the Philippine Public Safety College and the and the La Salle Institute of Governance. He is also an auxiliary officer of the Philippine Coast Guard with the rank of commander.

Eleanor A. Jara, M.D. is the current Executive Director of the Council for Health and Development (CHD), the national organization of community-based health programs in the Philippines.

She serves as co-convenor of Coalition for People's Right to Health, a coalition composed of service-oriented groups, individuals, non-government organizations, academic institutions, religious groups involved in health apostolate/health ministry, grassroots health activists, patient's organizations, and people's organizations nationwide.

She is also a co-convenor of the Solidarity of Health Personnel and Advocates for a Unified Plan (SHAPE UP) to Defeat COVID-19 which is an alliance chided on the government's lack of comprehensive plan to combat COVID-19.

Dr. Jara is also one of the convenors of 1SAMBAYAN, a coalition that aims to usher a competent, trustworthy administration in the May 2022 national elections. The coalition represents a broad spectrum of legitimate political persuasions in the Philippines.

She was a graduate of the University of the Philippines (UP) College of Medicine Manila. She taught community medicine at UP Comprehensive Community Health Program in Bay, Laguna and took her residency training in community pediatrics at the UP Philippine General Hospital. She is a community medicine practitioner and an advocate of the people's right to health for over 40 years.

Magdalena A. Barcelon, M.D is currently the Chairperson of the Board of Trustees of the Council for Health and Development. She is also the President of the Community Medicine Practitioners and Advocates Association (COMPASS) - a national, non-governmental, non-profit organization composed mainly of community doctors who believes that health is a basic right.

She is also a co-convenor of Coalition for People's Right to Health and the Deputy Executive Director of the Community Medicine Development Foundation. Beyond her over 40-year career in the field of medicine, she is involved in a variety of community-based development work and social action across different parts of the Philippines.

She pursued a degree in Medicine at the University of the Philippines College of Medicine in Manila and has been a community medicine practitioner since then.

Katharina Anne D. Berza is the current Director of the Advocacy, Public Information and Research Department of the Council for Health and Development. She also leads the Council's secretariat that is involve in the campaign for a free national public health system. Ms. Berza took her Bachelor of Arts in Social Science Major in Sociology and Psychology at the University of the Philippines.

Dr. Carlos P. David is a licensed geologist and professor of Geology and Environmental Science at the National Institute of Geological Sciences at the University of the Philippines Diliman. He obtained his M.Sc. in Geology at the University of the Philippines. In 2003, he received his Ph.D. in Environmental Science and Geology at Stanford University. His research interests include hydrogeology and environmental geochemistry.

Dr. David is part of a team of scientists who established the hydroponic farming research center in UP Diliman and is now working with the Bataan Peninsula State University in establishing precision farming for various crops and livestock in Bataan. He chaired the Climate Change Commission's National Panel of Technical Experts and is the former Executive Director of the Philippine Council for Industry, Energy and Emerging Technology Research and Development (PCIEERD) at the Department of Science and Technology (DOST) from 2015 to 2017.

He was also the Officer-in-Charge of the Philippine Nuclear Research Institute of the Department of Science and Technology from 2016 to 2017. Prior to that he was the Overall Head of the GMA News and Public Affairs' I M Ready Program, the official public safety and preparedness campaign of the news organization, from 2013 to 2015.

Dr. David was the project leader of Philex Mining Corporation's alternative revegetation method for the company's tailing ponds, and the project leader for the establishment of the Philippine Flood Information Network by DOST Project NOAH.

He received the Lifetime Achievement Award for Earth Sciences from the National Research Council of the Philippines (NRCP) in 2017, the Most Outstanding R&D of DOST-PCIEERD in 2015, and the Oscar M. Lopez Professorial Chair for Climate Change Adaptation from 2013 to 2017.

Dr. David is a Trustee and Program Convenor of the Stratbase Albert

del Rosario Institute (ADRI), and Convenor of the Philippine Business for Environmental Stewardship (PBEST).

Dr. Toby Melissa C. Monsod is a holder of the Ruperto P. Alonzo Professorial Chair in Development Economics. She is an active member of the Philippine Human Development Network, a non-stock, non-profit organization whose mission is to propagate and mainstream the concept of sustainable human development through research and advocacy. Dr. Monsod has been serving as a valued resource person for the Climate Change Commission and the National Economic and Development Authority.

Dr. Monsod was the Assistant Secretary of Trade and Industry and the Chief of Staff of the Department of Trade and Industry from 2000 to 2002. She was also the Deputy Secretary-General, then Secretary General, of the Housing and Urban Development Coordinating Council from 1998 to 1999.

Her research focuses on Regional Economics, Housing Economics, Public Economics, Development Economics, and Impact Evaluation, among others. One of her latest research papers is entitled “Rethinking Economic Fundamentals” in an Era of Global Physical Shocks: Insights from the Philippines Experience with COVID-19”. The research found that national capacities to detect and respond to outbreaks are associated with better short-term economic outcomes. It suggests that strengthening the health system capacity should be prioritized over any other type of national spending. The paper underscores the need to rethink the necessities for economic stability and resilience within the context of global and physical shocks coming from climate hazards.

Sara Jane Ahmed is the founder of the Financial Futures Center. She also serves as Finance Advisor to the Ministers of Finance from the world’s 55 most climate vulnerable countries or the Vulnerable Twenty (V20) Group. In her relatively short career so far, she has been credited with a number of wins, a testament to her strategic and collaborative approach. Those wins include a recent government-sanctioned moratorium on new coal-fired power in the Philippines and the development of the Sustainable Insurance Facility (SIF) at the V20.

Maria Golda Hilario is the Associate for Program Development of the Urban

Transitions Team of the Institute for Climate and Sustainable Cities (ICSC). She has had over two decades of experience in development work, mostly doing participatory research and policy analysis in the areas of sustainable agriculture, agricultural biodiversity, livelihood systems and trade. She formerly led ICSC's RE-Charge Pilipinas team and is now leading the development of its urban transitions agenda. She is also ICSC's representative and an adviser to the Philippine delegation to the Asia-Pacific Ministerial Conference of the Beijing+25 Review.

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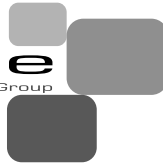
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A STRATEGIC AGENDA FOR THE NEXT PRESIDENT

The May 9, 2022 political exercise offers a unique opportunity of translating the societal concerns and challenges into promising reforms in the realms of social, economic, and political management and governance.

It is incumbent upon the leaders of the new government at the end of June 2022 to act on the multi-dimensional concerns that Philippine society is set to confront in the next six years and beyond. In this respect, the various challenges and opportunities presented and discussed in this book outlines the broader and deeper confines of “politiká - affairs of the state” that the new government must attend to in collaboration with the different sectors of Philippine society.

Victor Andres ‘Dindo’ Manhit is the Editor and the President of the Stratbase ADR Institute.