

THINKING BEYOND POLITICS

A STRATEGIC AGENDA FOR THE
NEXT PRESIDENT

VICTOR ANDRES C. MANHIT
EDITOR

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Preface

For generations, many Filipinos' aspirations for prosperity have been routinely frustrated by the politicization of policy-making, reactive thinking, bad governance and corrupt politics. This is perhaps the best way to describe our common motivation for this project.

The Albert del Rosario Institute (ADRI) for Strategic and International Studies was founded by a multi-sectoral union of innovative thought leaders and public intellectuals as an independent international and strategic research organization with the principal goal of addressing the issues affecting the Philippines and East Asia through:

- 1) Effecting national, regional and international policy change or support;
- 2) Fostering strategic ideas based on cooperation and innovative thinking;
- 3) Providing a regional venue for collaboration and cooperation in dealing with critical issues in East Asia; and
- 4) Actively participating in regional debates and global conversations.

The Institute sees itself as a convener of inputs and practical analyses of policy debates in the Philippines. This year's flagship project was a series of multi-sectoral forums that sought the opinions of the country's most respected experts and stakeholders in a variety of fields. They sat down and zoomed in on strategic issues and recommendations that the Institute and its network of influencers would advocate as a strategic agenda for National Development for the next administration.

The authors of the eight papers borne out of these forums include some of the most respected public intellectuals of the country. As ADRI trustees and fellows,

these prominent scholars have generously shared their valuable insights and analyses that we now publish as a rare compilation of policy recommendations that we hope will serve as a comprehensive guide for governments of many political cycles, a roadmap for the country's future leaders on how to navigate key political and economic issues that will shape the development of the Filipino nation.

The Focus:

The Aquino Administration's Foreign Policy Agenda: The "Return" of Geopolitics in Philippine External Relations

Dr. Renato C. De Castro

In this paper on foreign relations, Dr. Renato De Castro discusses the expansion of the Philippine foreign policy agenda from its traditional focus on protecting overseas Filipinos and promoting trade to include safeguarding Philippine sovereignty and maritime territorial defense. More than before, engaging international bodies, like the Permanent Court of Arbitration in The Hague, and cooperating with allies and partners, such as the United States and Japan, are a national priority. To effectively handle both traditional and emerging foreign policy demands, Dr. De Castro recommends that the Philippines invest in expanding the Foreign Service and Training Staff in gathering intelligence, reporting economic and political developments, engaging foreign publics, and related skillsets in addition to those used in protecting nationals and providing consular services. As Philippine foreign affairs take on a greater security dimension, he argues for the passage of a National Security Act creating a legislated National Security Council that would oversee an intra-agency approach to territorial defense.

A 21st Century Philippine National Security Agenda: The Aquino Administration's Efforts for Developing a Credible Defense Posture

Dr. Renato C. De Castro

The changes in our foreign policy priorities fall in lock-step with those in National Security. In his second chapter, Dr. De Castro looks at how the AFP has reoriented itself away from internal security operations toward a focus on developing maritime capabilities for territorial defense goals. He underlines that this reorientation should maximize the potential of each of the three

services, especially the long-neglected Philippine Navy and Philippine Air Force. Leveraging the 2014 Enhanced Defense Cooperation Agreement and other partnerships and increasing the defense budget from 1% to 2% of GNP will assist in that process. To ensure that improvements can be institutionalized, he further recommends ending the ‘revolving door’ in the AFP’s Joint Chiefs of Staff and provide a fixed term for the chairman and service commanders. Finally, the new government must appreciate the importance of pursuing and concluding the peace process and engaging the Philippine National Police in promoting law and order throughout the country.

Foreign Direct Investment, Exports, and Philippine Economic Growth

Dr. Epictetus E. Patalinghug

In the next paper, Dr. Epictetus Patalinghug reexamines the relationship between foreign direct investment, exports, and economic growth. The Philippine economy has shown marked improvement in recent years, registering a growth rate as high as 7.6% in 2010 and initiating policy reforms targeting increased competitiveness and efficiency. High-quality FDI will provide jobs, enhance skills, and further boost the competitiveness of local enterprises. On the other hand, the country’s export performance has been uneven and an activity concentrated in a few large firms. To improve FDI’s effectiveness, Dr. Patalinghug recommends the Philippines prioritize investments in human capital, infrastructure, and developing capital markets. With this in mind, the new government should work with the private sector to create and implement a new industrial policy that rebuilds the capacity of existing industries where the country has a comparative advantage, promote cost discovery in emerging industries, and move away from low value-added segments of the regional production networks in electronics, garments, and the automotive industry.

Poverty, Inequality, and Inclusive Growth

Dr. Epictetus E. Patalinghug

With regard to inclusive growth, Dr. Patalinghug looks in greater depth at the linkage between economic growth and poverty reduction. He observes that while economic growth has been shown to reduce poverty generally speaking, the effect on the income of the poor is not proportional relative to the remainder of society. This is important, as high levels of inequality are found to have a negative impact on poverty reduction. At the same time, other factors affect the well-being of the poor. For example, economic growth in rural areas also has a higher

impact than in urban areas. Therefore, to better harness the gains of growth, Dr. Patalinghug recommends that the government invest in the human capital of the poor, specifically through the K-12 and conditional cash transfer program, and work to reduce unemployment, especially in the countryside, through public works programs. He recommends that infrastructure development specifically target the needs of the poor, especially those distant from the capital, and involve small and medium-scale enterprises in implementation. Finally, Dr. Patalinghug concludes that the next administration should not waste time and political capital re-organizing anti-poverty institutions and instead allocate programs to them according to their strengths.

Strategic Policy Directions for Governance Reform

Dr. Francisco A. Magno

For national governance, Dr. Francisco Magno looks at the key challenges and notable areas of both potential and actual progress in Philippine governance over an 18-year period covering 1996-2014, using the World Bank's World Governance Indicators survey. Positively, the Philippines improved its marks in 2014 by scoring higher on five out of six indicators—voice and accountability, political stability, government effectiveness, regulatory quality, and rule of law. It suffered on one indicator—control of corruption. Although most of these challenges are deeply rooted and systemic, potential and actual successes energize hope for solutions. For each of the indicators, Dr. Magno recommends specific courses of action, including: initiating campaign finance reform and enacting an anti-dynasty law; ending hostilities with armed groups and reinvigorating negotiations; energizing the bureaucracy by increasing the basic salary schedule and putting performance monitoring systems in place; avoiding conflict of interest in the dispensation of justice; and reducing regulatory burden and improving regulatory quality, such as the deployment of information communications technology. Finally, the next administration should also work for the passage of critical laws that will strengthen anti-corruption mechanisms, through vehicles like the Freedom of Information Law and the Whistleblowers' Protection Act.

Decentralization Policy Reform Agenda for Local Development

Dr. Francisco A. Magno

Turning to local governance, Dr. Magno tackles how decentralization in the Philippines has affected the performance of local government units with regard to finance and revenue administration, expenditure management, regulatory quality,

development planning, social services delivery, human resource development, performance management, and coordination and collaboration. Although reviews have been mixed, decentralization has accomplished much in terms of bringing government and resources closer to communities, redefining the roles of both national and local governments. To improve the success rate, Dr. Magno recommends steps to encourage effective and sustainable conditions for good governance, including the importance of a legal framework that clearly specifies the powers and responsibilities of each unit, enhancing the capacities of staff, and correctly allocating financial resources and accountability mechanisms.

Striking a Balanced Energy Mix, Ensuring Security and Affordability

Dr. Carlos Primo C. David

In his paper on energy, Dr. Carlos Primo David discusses the importance of achieving energy security for the country's economic development. He illustrates the difficulties plaguing the Philippines' energy sector: a lack of competitiveness in energy generation results in higher prices for consumers; a tight supply of energy cannot keep up with the continuously growing demand of an also growing economy; and the sector as a whole needs to achieve an energy mix that takes advantage of the country's renewable sources. Achieving a balance between energy security, climate protection, and affordability is possible by reducing barriers to investment in the sector; reducing taxes on energy, including studying the removal of the value-added tax on electricity consumption; empowering electric co-operatives; and developing renewable and indigenous sources of energy.

Advancing Sound Resource Management as a Requisite for Sustainable Development

Dr. Carlos Primo C. David

In his paper on resource management, Dr. David goes on to observe the irony that the environment has never figured prominently in the agenda of past administrations given the Philippines' uniquely rich natural resources. As a nation struggling to overcome poverty, the main challenge in managing our environment is balancing economic development and environmental protection. In mining, forestry, fisheries, and solid waste management, the overarching problem is poor implementation of environmental laws and policies, of which some are outdated. Aside from building the capacity of local stakeholders, another strategy towards sustainable development is adopting the "portfolio management approach", where areas, such as those for mining or lumber, are pre-identified and

pre-approved of all permits or licenses based on common principles agreed upon by the government and experts. Moreover, the next government has to likewise address the country's vulnerability to extreme weather by improving disaster risk management and be able to contribute towards in keeping global temperature down, such as by promoting the use of cleaner fuels and upgrading transport infrastructure. In finding that balance to achieve sustainable development, however, the next government must collaborate with the different sectors of society to better understand and respond to the systemic and cyclical nature of environmental degradation.

The Context: Global Shifts, Disruptions and Trends

Power Shifts and the Decay of Traditional Power

All over the world, two great power shifts are taking place, power transition among states and power diffusion away from states to non-state actors. Power is changing in so many areas that the powerful today are more constrained, their hold to power less secure and their tenure shorter.

The decay of power means freer societies, more elections and options for voters, new platforms for organizing communities and policy making, more ideas and possibilities, more investments and trade, and more competition among firms and thus more options for citizens and consumers.

We are on the verge of a transformation where disruptive innovations will positively change electoral politics, governments, political participation and the policy process. The combination of technological, market and geopolitical events had leveled the global economic field and enabled more people to take part in democracy while rising to the middle class.

Amid this great power flux, other trends—rising global inequality, unstoppable urbanization, regional territorial conflicts, and potentially disruptive technological game-changers—are complicating the political scene.

The obliteration of barriers is transforming local, national and geopolitics; the competition for votes; the policy process; and even created rivalries among nongovernmental organizations, intellectual institutions, ideologies, and schools of philosophical thought and science.

As a result, small, unknown, and once-negligible political actors, have found ways to undermine, fence in, or thwart nation-states, great powers, large bureaucratic organizations, and multinationals that once controlled national and

global power. This means fringe political parties, innovative start-ups, organized activists, upstart civil society organizations, citizen media, and leaderless young people, among others, can now partake in the national, regional and global conversation and the struggle for power.

Our “ultimate goal is to break the exclusiveness of our institutions and the monopoly of power (economic and political) by dominant socioeconomic class and political elites that have long hijacked the Philippine state.”

Inequality Amidst Economic Growth and Affluence in Philippine Society

A major culprit of underdevelopment is skyrocketing inequality, perpetuated by a vicious cycle of corrupt politics, bad governance, and exclusive economic institutions in Philippine society. Though the Philippines has experienced robust economic growth in the past, “disparities in income, education, health and infrastructure persist and the country’s poverty-reduction performance remains to be the slowest in the region”.

Inequality not poverty weakens the economy, consumer demand, and even undermines Philippine democracy. It moves money from the bottom of the pyramid to those on top who spends less of their money than those at the bottom, thus weakening overall demand. Inequalities manifest in lack of access to health care and quality education, in political voice and participation, in jobs and livelihood opportunities. “The other side of income inequality is shrinking opportunity for the Filipino people.”

Corporations and producers cannot grow without consumers. A modern economy requires equalizing reforms. It needs government to (1) invest in infrastructure, education, healthcare, technology; and (2) create access to jobs and livelihood opportunities.

Age of Urbanization and the Challenge of Sustainable Development

People have been moving to cities for centuries, attracted by the possibility of higher income, more opportunities and a better life. More people have moved and continue to move from farms to cities than ever before, specifically in the Philippines the past decades.

The rising urban tide in emerging and developing nations like the Philippines opens up unprecedented access to new markets, new consumers, new economic opportunities and a unique chance to innovate. New urban centers will be home to a growing middle class in the Philippines creating large consumer markets to meet robust domestic consumption.

Future economic prosperity will create a nation faced with tightening energy supplies, resource scarcity, and accelerating climate change. In the Philippines, as well as the other Southeast Asian countries, vulnerability to extreme weather is an inevitable concern due to the region's location and poor infrastructure.

To face the challenge of natural calamities, reliable infrastructure for telecommunications, transportation, energy and water are crucial to creating sustainable and disaster resilient cities and communities.

Although economic growth is pushing us to this “new normal”, meeting energy requirements for the Philippines is of great importance in order for us to achieve the status of a developed economy. Thus, the challenge for our country is to place energy use as an engine for growth within the context of sustainable development, that is, growth of supply of energy, without polluting the environment.

“More than looking at the policies, it is imperative for the next government to adopt some form of environmental governance, to facilitate collaboration and consensus-building among stakeholders toward effective management of the country's natural resources. This inclusive approach will hopefully help pinpoint where the fulcrum stands between economic development and environmental protection.”

Accelerated Technological Change and Adaption

Institutions who fail to navigate today's technological tide will lose out on a huge economic opportunity and will be more vulnerable to disruptions from new innovations.

Companies are using disruptive technologies and putting data to use – driving market share, reducing costs, raising productivity, and improving products and services. Digitization has drastically lowered geographic barriers fueling the global growth of micro-small and medium enterprises and supply chains.

Government needs to understand productivity-enhancing virtues of information technologies and its disruptive impact on economic growth and democratic governance, as well as enable policy and regulatory environment to increase efforts in improving connectivity. Information and Communications Technology (ICT) is the freeway of the Internet and Digital Economy.

“Any regulation from the next government regarding ICT must take into account the convergence of communication technologies and incorporates the principle of technological neutrality. Policy and legal frameworks that facilitate trusted computing need to be in place for the benefit of all users, public or private.”

The Philippines and the 21st Century Geopolitical Challenges

National interest defines Philippine foreign policy which covers a wide range of political, economic and social concerns in relation to other states and other international entities. Preserving these interests lies even at the core of the country's defense outlook, which has seen a substantial shift since 2009 in line with the changing balance of domestic land-based and international maritime security demands.

“A significant challenge that the new President will face is whether or not he or she will continue President Benigno Aquino's III policy of bringing geopolitics back into the country's external policy; while at the same time conducting routine and mundane tasks of extending assistance to overseas Filipino nationals and pursuing economic security through development diplomacy.”

While the Philippines has designed and adopted an independent foreign policy that is in adherence to the principles of peace, equality, justice, freedom, cooperation and amity with all nations, to further its goals and interests, there continues to be the need to re-examine the same to determine whether it remains to be responsive to changing times and evolving regional order.

Engagements with global institutions, like the Permanent Court of Arbitration in The Hague, and international defense cooperation with allies and partners, such as the United States and Japan, have moved up the list of the Philippine priorities. “To address challenges in new domains while maintaining attention on traditional demands, the Philippine Foreign Service and its staff should be expanded and retrained to handle intelligence-gathering, economic and political reporting, public diplomacy, and related skill sets in addition to protecting nationals and providing consular services.”

“As Philippine foreign affairs take on a greater security dimension, the passage of a National Security Act creating a legislated National Security Council that would oversee an intra-agency approach to territorial defense is critical. Twenty first century Philippine diplomacy must be supported by an externally oriented and modern intelligence community backed by armed forces that has reoriented itself away from internal security operations towards a focus on developing a credible defense posture for maritime and territorial defense.”

For the Next Government

Our mission in the Institute has 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. Through this initiative, the Institute aims to disrupt the Philippine policy process and shape the future of the Filipino Nation.

As public policy strategists, we need to think beyond politics, draw on a rare combination of backward-looking analytics and forward-looking thinking and imagination. We offer macro visions driven by fact-based analytics and strategic policy options.

This body of work will form the foundation of the Institute's advocacy in the next government. Whoever is elected, whoever gets appointed, our mission will be to transform this compilation of sagacious advice into policy, into laws. We must not be afraid to be disruptive, to break the myopic political cycle that has hindered the velocity of growth and prosperity that all Filipinos have a right to enjoy.

In 2016, we need 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 land, 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, Albert del Rosario Institute (ADRI)

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The Aquino Administration's Foreign Policy Agenda: The "Return" of Geopolitics in Philippine External Relations

RENATO C. DE CASTRO, PH.D.

In his first few months in office, President Benigno S. Aquino did not show much interest in foreign relations. He said little about foreign policy and left the subject on the margins during his inaugural speech and in his first State of the Nation Address in July 2010. In his inaugural speech, Aquino announced that he will consider going on a foreign trip only after he has addressed urgent "domestic matters."¹ He declared that while the proposed foreign trips of the Department of Foreign Affairs (DFA) "all have value", it was a matter of determining which should come first and which would be the "most cost effective." Aquino, however, added that "he wants to settle pressing domestic problems before he leaves the country."² Dramatic and unexpected external challenges, however, forced him to pay greater attention to foreign policy matters than he had anticipated in 2010.

The first major foreign policy challenge that confronted him was the country's relations with an emergent and assertive China. Initially, Aquino tried to curry favor with the affluent and confident country. In late 2010, for example, the Philippines joined a 19-state coalition led by China that did not send a representative to the awarding ceremony for Nobel Peace Prize winner Chinese dissident Liu Xiaobo in Oslo, Norway. In February 2011, the Philippines figured in a serious diplomatic row with Taiwan after the Philippines extradited 14 Taiwanese citizens to China after they were accused by Beijing of committing electronic fraud against Chinese nationals. In March 2011, the Aquino administration approached Beijing on bended knee as it pleaded with Chinese authorities to grant clemency to three Filipinos sentenced to death for drug trafficking (the three were eventually

executed in April). Consequently, Aquino realized that appeasing China did not reduce the risk of being singled by an emergent and assertive power.³

By well into 2015, Aquino had generated a “revolution” in Philippine foreign policy as he had challenged China’s expansive claim in the South China Sea. In doing so, he brought geopolitics back as the primary issue on the country’s foreign relations agenda. Ever since the withdrawal of the United States’ bases from the Philippines in late 1992, the three previous administrations (Ramos, Estrada, and Arroyo) had directed Philippine foreign policy away from geopolitics or ‘high politics’ issues of getting involved in risky games between the great powers to the less risky, routine and ‘low politics’ objectives of protecting Filipino overseas workers (OFWs) and conducting development diplomacy. Aquino reversed this direction by jumping into a classic geopolitical game—challenging China’s expansive maritime claim in the South China Sea by building up the Philippine military and strengthening the Philippines’ security relations with the United States and even Japan, China’s main rival in East Asia. These efforts put the Philippines squarely in the middle of a brewing great power rivalry in East Asia, redirecting 21st Philippine foreign policy back onto the path of traditional geopolitics.

Despite this new direction, however, the Aquino administration still paid attention and exerted significant efforts to pursue the less risky, low-politics, and mundane foreign policy goals of providing assistance to OFWs and promoting economic security. As one of the largest sources of migrant workers in the global labor market, the Philippines pursued a two-prong approach in managing its policy of protecting the welfare and interests of about eight million OFWs all over the world. Finally, it also restructured the Philippine foreign service and the country’s diplomatic posts to be the overseas instrument of the country’s quest for economic security.

Bringing Back Geopolitics in Philippine Foreign Policy: The South China Sea Dispute

The South China Sea is a semi-enclosed sea surrounded by China and several small and militarily weak Southeast Asian powers such as the Philippines, Vietnam, Malaysia, and Brunei. For almost three decades, these littoral states have been involved in chronic competition as each one seeks to extend its sovereignty and jurisdictional claims over some or all of more than a hundred islets, reefs, and rocks and their surrounding waters. The dispute became dormant after the late 1990s and the early 21st century after China and the Association of Southeast

Asian Nations (ASEAN) signed the 2002 Declaration on the Conduct of Parties in the South China Sea.

Tension arising from this maritime row, however, increased again in 2009 when China discarded its tactic of delaying the resolution of the dispute and instead asserted its sovereignty over the contested waters. This shift in diplomatic tactics is aimed at deterring other claimant states like the Philippines and Vietnam from cementing their claims and enabling China to negotiate with these small powers from a position of strength. In an assertive posture, China consolidated its jurisdictional claims in the South China Sea by expanding its military reach and pursuing coercive diplomacy against the other claimant states. For instance, it increased its naval patrols (using submarines, survey ships, and surface combatants) in Japan's exclusive economic zone (EEZ) and territorial waters in the East China Sea and intimidated foreign oil companies that tried to operate in the South China Sea.

China avoids, however, outright provocative naval deployment by assigning routine patrolling of politically-sensitive waters and land features to the vessels and aircraft of civilian agencies such as the State Oceanic Administration, its subordinate Marine Surveillance Force, and the Bureau of Fisheries, all now integrated into the Chinese Coast Guard.⁴ China uses these civilian vessels to challenge and detain fishing boats from other littoral states; to explore and identify sites for future Chinese oil drilling; and to prevent other claimant states from deploying their seismic ships in energy-rich areas of the disputed waters. All these efforts pursue one specific objective in the South China Sea: "to change the (territorial) status quo by force based on Chinese assertion, which is incompatible with the existing order of international law."⁵ By the end of the first decade of the 21st century, China's myopic nationalism, growing naval prowess, and unilateral actions have become overtly directed against a militarily weak Southeast Asian country—the Philippines.

In August 2010, two months after Aquino assumed office, China sent a clearly belligerent signal to the other claimant states (specifically to Vietnam and the Philippines) and the United States that its claim of sovereignty over the sea and its islands are "indisputable." The People's Liberation Army Navy (PLAN)'s three major fleets deployed surface combatants, and launched strikes from fighter planes and missiles against hypothetical long-range targets when it conducted a live-fire exercise in the South China Sea.⁶ Taken together, these PLAN shows of force were intended to demonstrate that China has indisputable sovereignty over the South China Sea and that it is rapidly developing the capacity to sustain larger naval deployment deep into this maritime territory.

From Equibalancing to Balancing

At the beginning of the 21st century, Philippine foreign policy was characterized by equibalancing among the three major powers in East Asia—the United States, Japan, and China. This aimed to insulate the Philippines from possible competition and rivalry among the great powers in East Asia by currying favors and diplomatic support from all of them. The essence of this diplomatic strategy is to accept, to facilitate, and to pit the major powers against each other in an international situation where they will eventually square off. This, hopefully, would give the Philippines not only the diplomatic space to maneuver and survive, but also the chance to use this space to advance its own strategic political and economic advantage.

During her nine-year term, former President Gloria Macapagal Arroyo conveniently used the US' Global War on Terror and China's economic emergence to engage the two major powers in a delicate equi-balancing game and to generate external resources to achieve her primary security goal—containing persistent domestic insurgencies. On the one hand, the Philippines' participation in the global coalition against terrorism secured for the country millions of dollars in American economic and security assistance. On the other hand, China's burgeoning trade with the ASEAN states made the behemoth an important market for Philippine exports. Later, these economic ties broadened to cover security and, more significantly, even security-related matters.

The Philippine policy of equi-balancing the three major powers ended with Aquino's election as president in 2010. Initially, Aquino tried to maintain cordial relations with China. In late 2010, for example, the Philippines joined a 19-state coalition led by China that boycotted the awarding ceremony in Oslo, Norway for Nobel Peace Prize winner, Chinese dissident, Liu Xiaobo. In February 2011, Aquino ordered the extradition to China of 14 Taiwanese accused by Beijing of committing electronic fraud against Chinese nationals. This caused a major diplomatic ruckus between Manila and Taipei. In due time, however, Aquino realized that kowtowing to China does not exempt one from being singled by Chinese aggressiveness in the South China Sea.

On March 2, 2011, two Chinese patrol boats harassed a survey ship commissioned by the Philippine Department of Energy (DOE) to conduct oil exploration in the Reed Bank (now called Recto Bank). Reed Bank lies 150 kilometers east of the Spratly Islands and 250 kilometers west of the Philippine island of Palawan. Stunned by this maritime encounter, which occurred within the Philippines' EEZ, the Aquino administration filed a protest before the Chinese embassy in Manila.

A DFA spokesperson commented that “the Philippines is (simply) seeking an explanation for the incident.” Brushing aside the Philippine complaint, a Chinese embassy official insisted that China has indisputable sovereignty over the Nansha Islands (China’s name for the South China Sea islands) and their adjacent waters. Beijing went on to demand that Manila first seek China’s permission prior to the conduct of oil exploration activities even within the Philippines’ EEZ.

With these incidents, the Aquino administration hastened to develop the Armed Forces of the Philippines (AFP)’s territorial defense capabilities. In June 2011, the executive branch of the Philippine government and the AFP agreed on a multi-year, multi-billion peso defense upgrade spending and military build up. In October 2011, Department of National Defense (DND) Secretary Voltaire Gazmin released the Defense Planning Guidance (2013-2018), restructuring the AFP to a “lean but fully capable” armed forces to confront the challenges to the country’s territorial integrity and maritime security.⁷ The 2016-2021 Defense Planning Guidance states: “That the defense of the country’s territorial integrity and sovereignty, specifically in the West Philippine Sea, poses the most foremost security challenge...” Hence, “the primary end goal of the department is to develop a minimum credible posture for territorial defense and maritime security.”⁸

In building up the country’s territorial defense capabilities, the Aquino administration sinks its teeth into challenging China’s expansive claims in the South China Sea, as the latter directly encroaches into the country’s EEZ. The Philippines’ territorial defense goal is very modest: to develop a credible posture for territorial defense and maritime security by building a competent force capable of defending the country’s interests and the land features it occupies in the South China Sea.⁹

The Philippines Brings its Case to ASEAN

In late July 2011, the Philippines tried to bring its case to the ASEAN. The Philippines hoped that the regional organization could push China to accept a binding code of conduct in the South China Sea, a code which might prevent it from building more military outposts on the islets and shoals and restrain it from conducting provocative actions against other claimant states. China has resisted a binding code of conduct by insisting that an agreement should be reached through consensus among all ASEAN member states while consulting China for the formulation of the draft agreement. Only afterward would the draft agreement be submitted to China for its approval. At the end of the August 2011 ASEAN ministerial meeting in Bali, unable to agree, ASEAN and China found

themselves back to where they started when they signed the non-binding code of conduct in 2001. After nine years of negotiation, China and the ASEAN found themselves engaged in a political-diplomatic game of propaganda rather than a serious attempt to manage, let alone prevent, potential armed conflict in the South China Sea.¹⁰

Eventually, the ASEAN-China meeting resulted in vague guidelines on how they would implement the 2001 Declaration on the Conduct of Parties in the South China Sea, not a code of conduct itself. The guidelines simply mentioned confidence-building projects in the South China Sea such as cooperation on marine, environmental, Severe Acute Respiratory Syndrome (SARS), transnational crime, navigation, and biodiversity issues.¹¹ The guidelines omitted important measures such as defining the rules of engagement governing how claimant countries' warships should behave in the disputed waters. Furthermore, it ignored the Philippines' proposal that China and the ASEAN states should work to create a framework to segregate disputed from undisputed areas in the South China Sea. Citing the futility of a code of conduct between ASEAN and China, Philippine Foreign Affairs Secretary Albert Del Rosario observes "that China's claim (on the South China Sea) is so all encompassing that if allowed to stand, it makes developing a code of conduct with China a useless exercise."¹²

In April 2012, the Philippines tried to elicit ASEAN's support for its proposal to create a "Zone of Peace, Freedom, Friendship, and Cooperation." This proposal seeks for all parties to clarify the boundaries of their maritime boundary claims in the South China Sea, as well as to turn disputed areas into special enclaves where disputing parties can jointly develop projects.¹³ China, however, did not want the issue to be multilateralized, preferring to resolve the dispute bilaterally. The Philippines' proposal for delimitation of maritime boundaries would have required China to clarify its ambiguous and expansive nine-dashed line claim. Beijing took note of Vietnam's and the Philippines' wish to have a common ASEAN position on the South China Sea dispute during the ASEAN summit in Cambodia from 3-4 April 2012. During the summit, China pressured Cambodia to keep the South China Sea dispute out of the ASEAN summit. Cambodia resisted any mention of the South China Sea in the final ASEAN communiqué of the year, and its officials walked out of the drafting meeting when pressed by other states. For the first time in its history, ASEAN did not issue a communiqué in 2012. Less than a week later, the 9 April 2012 issue of the *Global Times*, an English-language newspaper of the China's People's Daily and an unofficial mouthpiece of the Chinese government, warned the Philippines against underestimating "the strength and willpower of China to defend its territorial integrity."¹⁴

Balancing an Emergent China: the US Factor

Disappointed by ASEAN's inability to come out with a binding code of conduct, and aware of its military inadequacies, the Philippines decided to strengthen its security ties with the United States, its only strategic ally, and to foster a security partnership with Japan. In mid-June 2011, the Aquino administration publicly acknowledged the exigency of US diplomatic and military support. Executive Secretary Pacquito Ochoa expressed hope that Washington would come to Manila's rescue if an armed confrontation breaks out in the Spratlys. He added that the Philippines could invoke the 63-year old Mutual Defense Treaty (MDT) if the Spratlys dispute becomes an armed conflict. Philippine officials rationalized that an armed attack on Philippine metropolitan territory and forces anywhere in the Pacific, including the South China Sea, should trigger an automatic US armed response, specifically naval and air support. Then US Ambassador to the Philippines, Harry Thomas, reaffirmed the US security guarantee to the Philippines, stating: "The Philippines and the US are longstanding treaty allies. We are strategic partners. We will continue to consult each other closely on the South China Sea, Spratly Islands, and other issues."

Aside from strengthening its alliance with the US, the Philippines is also building its security relations with Japan, China's main rival in East Asia. As US allies, the Philippines and Japan share common security concerns, and thus cooperate bilaterally by undertaking collaborative maritime security activities through their respective Coast Guards; conducting joint counter-terrorism and UN peace-keeping trainings; countering nuclear arms proliferation; and facilitating the rotational deployment of forward-deployed US forces in East Asia. In July 2011, then Prime Minister Yoshihiko Noda and Aquino bolstered security relations between Japan and the Philippines. After Aquino's third visit to Japan, Tokyo and Manila held high-level talks on maritime and oceanic affairs, facilitated exchanges between Filipino and Japanese defense and maritime officials, and worked together on training, with Japan working specifically to build the capacities of the 3,500-strong Philippine Coast Guard.

The Scarborough Shoal Stand-Off: The Defining Moment in Philippines-China Relations

From 9 April to 18 June 2012, the Philippines squared off with China in the stand-off at Scarborough Shoal. A triangle-shaped shoal 150 square kilometers of barren

reefs and rocky islets, Scarborough is about 135 miles from the Philippines and 543 miles from China. Both countries have staked a claim to the shoal and have had hostile confrontations over control of the area since the late 1990s. The stand-off underscores China's preferred maritime strategy of "drawing a line" in the sea using civilian vessels to challenge littoral states that run the risk of exacerbating a critical situation by resorting to military means and engaging the PLAN ships lurking in the background. China's stratagem puts the onus on the use of force on these small states—outclassed by its naval prowess—by bringing them to the brink of a naval confrontation to resolve what is essentially a maritime jurisdiction issue.

The impasse began on 10 April 2012 when the Philippine Navy (PN)'s flagship, the BRP Gregorio del Pilar, attempted to apprehend several Chinese fishing boats at the shoal. Before the apprehension was completed, two Chinese maritime surveillance vessels arrived and prevented the arrest of the Chinese fishermen who were hauling corals, clams, and live sharks into their boats. To defuse the tension generated by the incident, the Philippines replaced its surface combatant with a smaller coast guard vessel. Instead of reciprocating, China upped the ante by deploying the Yuzheng 310—its most advanced and largest patrol vessel equipped with machine guns, light cannons, and electronic sensors. This incident underscores an international reality that Chinese economic and naval power casts a long shadow over the Philippines and Vietnam, which are at the forefront of a maritime dispute with China in the South China Sea.

During the stand-off, China did not show any desire to de-escalate and end the crisis.¹⁵ After two months, China and the Philippines agreed to remove their civilian ships near the shoal following a deal brokered by the US. Subsequently, however, China redeployed its maritime surveillance ships to block Philippine access to the shoal and has maintained a presence there ever since.¹⁶ When the tension at the Scarborough Shoal eased, China consolidated its control over the area. Crew members from the Chinese Maritime Surveillance vessels constructed a chain barrier across the mouth of the shoal to block any Philippine access to it. China also deployed these ships to protect the fleet of Chinese fishing boats operating deep into the Philippines' EEZ.

In October 2012, Chinese Foreign Minister Fu Ying, seeking a diplomatic solution to the dispute, visited Manila. However, instead of finding a mutually acceptable solution, the high-ranking official warned Manila not to appeal to the United Nations (UN); internationalize the issue in forums such as the ASEAN; coordinate with other countries such as the US; nor issue any press release regarding the negotiations. In effect, the minister demanded the Philippines

accept China's de facto occupation of the Scarborough Shoal in silence.

During the Scarborough stand-off, Aquino asked US President Barack Obama for a definite security guarantee when the two met in the Oval Office on 8 June 2012. President Obama assured him that the US would honor its obligations under the 1951 MDT. In a press conference, Aquino sought the Pentagon's assistance in upgrading the AFP's capabilities to patrol the country's extensive coastlines and sought the deployment of the US Navy P-3C Orion and Global Hawk drones in the Philippines. Aquino also expressed interest in acquiring US-made land-based radars for the AFP to monitor the expanse of the South China Sea.

Pursuing Strategic Balancing: The EDCA

After two years of mulling over the concept of a rotational US troop presence in the country, Manila decided to negotiate with Washington. In mid-October, the Philippine government invited the US Navy to return to Subic Bay Free Port for year-round exercises to counter external threats, and to prevent a future crisis situation from escalating into an armed confrontations. During the last official visit of outgoing US State Department Assistant Secretary Kurt Campbell to the Philippines in December 2012, the Philippines' DFA announced that the two countries had come up with "work plans for stronger and closer cooperation in maritime security, defense, economic ventures, diplomatic engagement, and support of the rule of law."

The Scarborough Shoal stand-off and China's later occupation of the shoal made it urgent for Manila to negotiate the "Framework Agreement on Increased Rotational Presence (IRP) and Enhanced Agreement" with Washington. The agreement facilitates the deployment of American troops and equipment on a rotational basis, thus avoiding the controversial issue of re-establishing US bases in the country. With its small and weak naval force and an almost non-existent air force, the Philippine military relies on the US for technical assistance through joint training, humanitarian missions, and disaster response operations.

On 28 April 2014, Philippine Defense Secretary Gazmin and US Ambassador to the Philippines Philip Goldberg signed the Enhanced Defense Cooperation Agreement (EDCA) a few hours before President Obama arrived in Manila for his first state visit. EDCA is not a new security pact; it is merely an updated implementation of the 1951 MDT.¹⁷ The executive agreement provides the framework by which the Philippines and the US can develop their individual and collective (defense) capabilities. Such task can be accomplished through the

rotational deployment of American forces in Philippine bases.¹⁸ Although the EDCA allows American forces to utilize AFP-owned and -controlled facilities, the Philippine base commander has unhampered access to these locations. Likewise, American-built or-improved infrastructure inside these installations can be used by the AFP. Furthermore, any construction and other activities within Philippine bases require the consent of the host country through the Mutual Defense Board (MDB) and Security Engagement Board (SEB).

Unfortunately, left-wing groups and ultra-nationalist personalities questioned EDCA's constitutionality as an executive agreement requiring no concurrence from the Philippine Senate. At the time of writing, EDCA is in legal limbo as both sides wait for a decision from the Philippine Supreme Court before the agreement could be implemented.

However, confronted by Chinese island-building activities in the South China Sea, the Philippine government decided to push through with the development of Subic Bay as a training and forward-launching facility for US forces operated by the AFP. In September 2015, Philippine Secretary of National Defense Voltaire Gazmin reiterated the AFP's plan to rehabilitate the air and naval facilities in Subic Bay Free Port in the central part of the mainland island of Luzon. Subic Bay, a deep water harbor located fifty 50 miles northwest of Manila facing the South China Sea, was the service and logistics center for the US Seventh Fleet until November 1992. Accordingly, this move will also enable the AFP to quickly deploy its forthcoming fighter planes and frigates to any contingency in the South China Sea.

Pursuing Strategic Balancing: Fostering a Strategic Partnership with Japan

The aftermath of the Scarborough Shoal stand-off further pushed the Philippines closer to Japan. The Philippines and Japan began conducting more high-level meetings and consultations to solidify their security cooperation. In December 2013, Aquino discussed with Prime Minister Shinzo Abe in Tokyo China's establishment of an Air Defense Identification Zone (ADIZ) in the East China Sea. Aquino was worried that China might extend the zone into the South China Sea adversely affecting Philippine security.¹⁹ Prime Minister Abe assured Aquino that Japan would not tolerate China's attempt to change the status quo in the region by force, and that it intended to cooperate with the Philippines to ensure that the freedom of flight and navigation is respected.

To help build up the Philippine Coast Guard (PCG)'s capability, Prime Minister Abe approved a yen-based soft loan to finance the Philippines' acquisition of 10 forty-meter long multi-purpose patrol boats from Japan.²⁰

Less than a year later, in June 2014, Aquino again met Prime Minister Abe in Tokyo to discuss ways to further Philippines-Japan security relations. In particular, the two tackled areas of possible cooperation to enhance the Philippines-Japan Strategic Partnership forged in 2013. Aquino followed up the PCG's request for 10 patrol boats to be acquired by the Philippines through a USD 184 million soft loan from Japan International Cooperation Agency (JICA). Prime Minister Abe assured Aquino that three of the vessels would be delivered in 2015, while the remaining seven would be ready for delivery in 2016. The PCG needs the patrol boats to secure the waters around the seven islands claimed and occupied by the Philippines in the Spratlys. The boats will also monitor foreign naval presence around the several reefs and shoals currently occupied by Chinese forces within the country's EEZ. For the PCG's maritime domain awareness operations, Japan promised to provide VSAR and Inmarsat communication systems.

More significantly, Aquino endorsed Prime Minister Abe's move to expand Japan's security role in the region. In the light of the Sino-Japanese dispute over the Senkaku Islands, Prime Minister Abe has pushed for the reinterpretation of Japan's pacifist 1947 constitution to accommodate the Self-Defence Forces (SDF, Japan's civilian armed forces)'s right of "collective self defense," which would allow the Maritime Self-Defense Forces (MSDF, Japan's equivalent to a navy) to assist allies such as the US even if Japan itself is not attacked. Aquino boldly declared that expanding the MSDF's role and cementing bilateral economic and security ties between the Philippines and Japan would better ensure regional security.²¹

In June 2015, Aquino met Prime Minister Abe for a third time to discuss how they could again strengthen their countries' strategic partnership in the face of China's continued aggressive behavior in the South China Sea.²² In the first day of his visit, Aquino signed the contract with Japan United Corporation for the acquisition of the aforementioned ten patrol vessels for the PCG. With a top speed of 16 knots and a range of 1,500 miles, the multi-role response vessels will be deployed in Coast Guard Districts across the country including in the island of Palawan—the country's westernmost territory that faces the South China Sea. The deal also included the supply of standard spare parts and tools, crew training, ocean transportation, and marine insurance.

While in Tokyo, Aquino and Prime Minister Abe signed "A Joint Declaration on A Strengthened Strategic Partnership for Advancing the Shared Principles and Goals of Peace, Security, and Growth in The Region and Beyond." The five-

page document provides a strategic vision for the two countries' evolving security relationship. The declaration praises their strengthened partnership and provides a basis for a relationship based on longstanding friendship between the peoples of both countries and their shared goals of ensuring peace and stability in the Asia-Pacific region, promoting the economic growth of the region, and addressing international challenges. It also expressed their commitment to ensure maritime safety and security and their serious concern regarding unilateral actions to change the status quo in the South China Sea, including large-scale reclamation and the building of outposts.²³ The statement was clearly directed against China's construction of artificial islands in the South China Sea.

On June 5, Aquino announced that the Philippines and Japan would soon start talks on a Status of Forces Agreement (SOFA) that would allow the SDF access to Philippine military bases.²⁴ In a press briefing in Tokyo, Aquino revealed that Japanese and Filipino officials discussed the possibility of SOFA since both countries have boosted their security relationship significantly over the past few years. In early June 2013, Secretary Gazmin raised the possibility of allowing the MSDF's ships and planes to access the Subic Bay base and Clark Airfield if Tokyo should be interested in negotiating and signing an access agreement with Manila. The possible use of the SDF of Philippine bases on a limited and rotational basis would be useful for Japan as it actively pursues a policy of "Pro-Active Contribution to Peace in East Asia." With refueling and basing facilities in the Philippines, units of the Air Self-Defense Force (ASDF) and MSDF could conduct joint patrols with their American counterparts for a longer period of time and over a larger area of the South China Sea.

The Philippines Files a Claim against China

In January 2013, the Philippines directly confronted China's expansive claim in the South China Sea by filing a case against that country in the Arbitral Tribunal of the United Nations Convention on the Law of the Sea (UNCLOS). In its Notification and Statement of Claim to the Arbitral Tribunal, the Philippines asked it to determine the maritime entitlements generated under UNCLOS by the Spratly Islands, Scarborough Shoal, Mischief Reef, and other land features within its 200-mile EEZ. These entitlements are based on the provisions of the UNCLOS specifically to the concepts of a Territorial Sea and Contiguous Zone under Part II, of an Exclusive Economic Zone under Part V, and a Continental Shelf under Part VI.²⁵

In its statement of claim, the Philippines made it clear that it does not seek arbitration over which party has sovereignty over the islands. Rather, it merely requested the Arbitral Tribunal to issue an opinion on whether China's maritime claim in the South China Sea based on its so-called nine-dash line claim is valid or contrary to UNCLOS; and whether Scarborough Shoal, Johnson Reef, Cuarteron Reef, and Fiery Reef, which are submerged features below sea level at high tide, are islands or rocks under Article 121 (3) of the Convention. It also petitioned the Tribunal to declare that the Philippines is entitled to a 12-mile Territorial Sea, a 200-mile EEZ, and a Continental Shelf under Parts II, V, and VI of UNCLOS and that China has unlawfully prevented the Philippines from exercising its rights to exploit resources in its EEZ and to navigation within and beyond the 200-mile zone of the Philippines' archipelagic baselines.²⁶

The filing of the Notification and Statement of Claim to the Arbitral Tribunal of the UNCLOS aimed to show that the Philippines' control of six islands in the Spratlys and other land features within its legitimate maritime jurisdiction is firmly grounded on international law—specifically the UNCLOS. It also requested the Arbitral Tribunal to require China to “bring its domestic legislation into conformity with its obligations under the UNCLOS and for it to stop any activities that violate the rights of the Philippines in its maritime domain in the West Philippine Sea (South China Sea).”

As expected, China refused to participate in the international mediation and openly expressed its opposition to the Philippines' filing of a case with the Arbitral Tribunal. On 20 February 2013, the Chinese ambassador in Manila returned the notice of arbitration to the DFA. At the same time, Mr. Hong Lei, Chinese foreign ministry spokesperson in Beijing branded the filing as “factually flawed” and accused Manila of violating the non-binding 2001 Declaration of Conduct of the Parties in the South China Sea, which provides for ASEAN and China to settle their maritime disputes among themselves.

From 7 to 13 July 2015, the Permanent Court of Arbitration in The Hague held its first hearing on the Philippine claims against China in the South China Sea. Philippine Foreign Affairs Secretary Albert Del Rosario made a presentation before the five-member tribunal hearing Manila's case filed against China's expansive maritime claim in the South China Sea. In his presentation, Secretary Del Rosario admitted that the tribunal does not have authority to make decisions on the issues of sovereignty. However, he argued that the Philippines wishes to clarify its maritime entitlements in the South China Sea, a question over which the tribunal has jurisdiction.²⁷ He also argued that the 1982 Convention on the Law of the Sea does not recognize nor permit the exercise of so-called “historic”

rights in areas beyond the limits of maritime zones that are recognized or established by UNCLOS.”²⁸ He then lamented that China has acted forcefully to assert its self-asserted right by exploiting the living and non-living resources in the areas beyond the UNCLOS limits while forcibly preventing other coastal states, including the Philippines, from exploiting resources in the same areas.²⁹

China, however, refused to be involved in the proceedings, citing its policy of resolving disputes on territorial and maritime rights only through direct consultation and negotiation with the countries directly involved.³⁰ Representatives from Indonesia, Japan, Malaysia, Thailand, and Vietnam were present during the hearing. In the Philippines’ first victory, the tribunal announced on 29 October that it had jurisdiction over the case. The tribunal will now proceed to the next phase, which is hearing the legal merits of the Philippines’ complaint against China’s claim in the South China Sea.³¹

Protecting Overseas Filipinos

Currently, the Philippines is the world’s largest exporter of overseas workers, surpassing traditional labor-exporting countries like India, Pakistan, and even China. OFWs cover a broad range of skill levels and are scattered all over the world with domestic service workers going to Hong Kong, Singapore and the Middle East while highly skilled Information Technology (IT) workers and nurses working in Canada, the United Kingdom and the United States. There is no doubt that the Philippines is a major source of overseas workers with about eight million OFWs from a country whose total population numbering around 100 million.³²

The export of labor as a matter of government policy began in 1974 as a stop-gap measure to reduce the country’s high unemployment rate and foreign exchange deficits caused by the 1973 First Oil Shock in the aftermath of the Yom Kippur War in the Middle East. Then President Ferdinand Marcos began the policy, creating two agencies to implement policies for the systemic deployment of OFWs in the international labor market—the Overseas Workers Welfare Administration (OWWA) and more significantly, the Overseas Employment Development Board that later became the Philippine Overseas Employment Agency (POEA). The creation of the POEA enabled the Philippine government to develop an institutionalized framework to facilitate the placement and processing of OFWs who want to work abroad. Eventually, the Philippines’ institutionalized export of its own people became without equal and has since attracted the

attention of the International Labor Organization (ILO) as a model worthy of emulation.³³

With an annual infusion of USD 25 billion into the economy (2012 figure), OFW remittances alleviate poverty at home; their repatriated income stimulates higher levels of demand for goods and services, fueling domestic consumption and increasing the gross domestic product (GDP).³⁴ Following strong public backlash to the Singaporean government's execution of a Filipino maid for murdering another Filipino maid in 1995, every Philippine administration has since been extremely sensitive to the issue of protecting OFWs all over the world.³⁵ Since the Ramos administration, the protection of Filipino workers abroad has been a highly sensitive and emotional diplomatic issue in the Philippines; no sitting president, including Aquino, would want to be perceived as negligent to the welfare of OFWs all over the world.

The OFW phenomenon confronted the Aquino administration with a dilemma. On the one hand, the administration had to avoid being seen as negligent to the needs of the OFWs and instead be seen to be dedicated to raising the government's overall capabilities to look after their welfare all over the world. On the other hand, the administration became concerned that by exporting labor to the international labor market, the Philippines had become overly dependent on overseas remittances to hide the country's lack of industry and employment opportunities, and had become ever more vulnerable to shocks from the global economy. Economic downturns in the developed and wealthy countries hosting millions of OFWs could cause them to lose their jobs and/or reduce the levels of remittances sent to their families in the Philippines. Aquino did not want to be in a position where the economy is severely undermined by the reduced flow of OFW remittances.³⁶

The Aquino administration addressed the OFW foreign policy challenge head-on: first, Aquino announced that he would raise the capacity of the government to look after the welfare of OFWs all over the world; second, and at the same time, his administration began managing the flow of OFWs abroad. The flow is managed by selectively banning countries that do not have laws protecting foreign workers, by initiating domestic programs aimed at reintegrating returning OFWs into the local economy and by fostering a viable environment for the economy to generate more quality jobs at home. In July 2011, Aquino signed Executive Order 34 creating the Overseas Preparedness and Response Team (OPRT) which replaced the 2002 Presidential Middle East Preparedness Committee that was tasked to formulate strategies, programs, and policies to ensure the safety and welfare of

OFWs around the world.³⁷ Led by no less than Secretary Del Rosario, several OPRTs went to Libya, Japan, Yemen and Syria to monitor the conditions of OFWs in the countries that were either rocked by civil strife or natural disasters. These OPRTs took charge of the relocation and repatriation of about 11,000 OFWs from those countries back to the Philippines or a third country.³⁸ The President, through the Department of Labor and Employment (DOLE), also instructed the POEA, OWWA, the Philippine Overseas Labor Offices, and the International Labor Affairs Bureau to intensify inter-governmental coordination to protect and reach out to OFWs, particularly those in distressed situations.³⁹

To manage the flow of OFWs to the global labor market, the Aquino administration passed into law Republic Act No. 10022 requiring all Philippine diplomatic posts to assess their respective labor markets in terms of protection extended to foreign workers in national laws, bilateral relations, ratified international conventions, and positive concrete measures to protect the rights of migrant workers. The law also obliged the DFA to negotiate bilateral and multilateral agreements with host countries for better protection of the OFWs. The law aims to “to cooperate with host nations and with international organizations so that shared responsibilities to care for all migrants are respected and fulfilled.”⁴⁰ In May 2011, the POEA listed 41 countries where OFWs cannot be allowed to work because of these countries’ non-compliance to legal standards set by RA 10022.

The passage of this law convinced Germany, Papua New Guinea, Saudi Arabia, Canada, and New Zealand to negotiate and sign bilateral labor agreements with the Philippines.⁴¹ Aquino also directed the DOLE to facilitate the reintegration of returning OFWs to the local economy by extending favorable terms for investments, tax incentives, access to government financial institutions and other benefits offered to foreign investors.⁴² For example, the government-owned Land Bank of the Philippines released a PhP one billion funding instrument for returning OFWs who want to set up agribusiness or other agricultural-related enterprises in the Philippines.

The program’s long-term goal is to foster the right environment for business to thrive in the Philippines and in the process, generate a greater number of quality jobs for potential OFWs so that they will decide to stay in the country than work abroad. In his last State of the Nation Address in June 2015, Aquino mentioned the success of his program for managing the outward flow of Filipino migrant workers as he announced “that the number of OFWs has declined from 10 million to 8.4 million, while domestic job creation has been sustained, resulting in a reduction of unemployment rate to only 6.6 percent as of January 2015.”⁴³

Enhancing Economic Diplomacy

Another concern of Aquino administration was the pursuit of the country's economic security through diplomacy. Labelled 'development diplomacy', this diplomatic strategy involves the utilization of the country's Foreign Service and posts to advance the country's economic development vis-à-vis the world. Prior to Aquino's inauguration in 2010, key members of the diplomatic corps urged him to continue the past administrations' policy of pursuing economic diplomacy.⁴⁴ Upon assuming his post in the DFA, Secretary Del Rosario announced that "economic diplomacy will particularly help [to] sustain our (the Philippines) drive towards poverty alleviation and job creation."⁴⁵

Underpinning the economic diplomacy effort is the recognition of "the reality of globalization," which entails, among others increasing competition, expanding foreign markets, and new products and services, without which the Philippines risks lagging further behind its neighbors.⁴⁶ Nevertheless, since 1985 the Philippines has taken unilateral steps toward and joined multilateral efforts at liberalization. These efforts worked in line with the country's commitments under the ASEAN Free Trade Agreement (AFTA)⁴⁷; these efforts may only expand as the Philippines takes part in emerging trade regimes, to include its intentions to join the Trans-Pacific Partnership as well as the ASEAN-led Regional Comprehensive Economic Partnership that is currently being negotiated.

Economic diplomacy is very much a whole-of-government effort, as the country's economic priorities are determined domestically. Coordination among and cooperation with other departments and agencies, such as the Department of Trade and Industry, will be important to maximize the domestic social return of the DFA's efforts abroad. To strengthen the foreign affairs department's skill in this task, Secretary Del Rosario tapped the Asian Institute of Management (AIM) to train Philippine ambassadors, career ministers, and even honorary consuls on the analytical and strategic skills necessary to pursue more focused economic diplomacy in their respective posts.⁴⁸ He also set input targets for the diplomatic posts in their conduct of economic diplomacy and a system to monitor their performance.

The foreign affairs department and its various diplomatic posts undertook various investment promotion efforts and trade promotion missions, at times in partnership with the private sector, to raise awareness about the economic and investment climate of the Philippines. Notable among those activities was the efforts of the Philippine Embassy in Washington to lobby for the passage of several US legislations that have bearing on the Philippines such as the SAVE ACT

against American call centers, the Consumer Protection Act, and the Partnership for Growth Act.⁴⁹ Through its diplomatic posts, the foreign affairs department actively engaged the country's bilateral, regional and global partners in areas of trade, investment, services, and tourism promotion, technology transfer, official development assistance, and development cooperation.⁵⁰ As of 2014, the foreign affairs office and its various diplomatic posts have conducted a total of 3,635 economic diplomacy programs ranging from opening new markets for Philippine exports, enticing foreign investors to the country, facilitating official development assistance, and promoting the country as a business and tourism destination.⁵¹

Summary and Conclusion

After the withdrawal of the US bases from the Philippines in late 1992, the Ramos, Estrada, and Arroyo primarily pursued a routine and 'low politics' foreign policy agenda of protecting Filipino workers overseas and economic diplomacy. Aquino changed this agenda by getting involved in a classical geopolitical game—challenging China's expansive maritime claim in the South China Sea. Discarding its predecessor's policy of equi-balancing the US, Japan and China, the present administration focused its attention on balancing against China and challenging its expansive maritime claims in the South China Sea.

Aquino redirected the AFP's focus from domestic security to territorial defense; fostered deeper Philippines-US security arrangements; acquired American military equipment; and sought from Washington an unequivocal security guarantee under the 1951 MDT. The most salient component of this foreign policy is the signing of the EDCA, which provides American forward-deployed forces a strategic rotational presence in Philippine territory, as well as broad access to Philippine military facilities. The updated agreement has been clearly designed to strategically constrain China, which has increased its territorial foothold in the South China Sea.

Similarly, the Aquino administration has forged closer security relations with Japan, another US ally and China's rival in East Asia. On their part, Prime Minister Abe has committed to provide 10 patrol boats to enable the PCG to safeguard the Philippines' maritime territory. On our part, Aquino endorsed Prime Minister Abe's move to reinterpret the 1947 Japanese Constitution to allow the SDF to assist allies like the US and, possibly, the Philippines in case of an armed confrontation with China in the South China Sea.

The Philippines has also challenged China by bringing the dispute to arbitration

by the international arbitral tribunal for UNCLOS. China flatly rejected Manila's plan to resolve the issue before the arbitral tribunal and insisted that the issue should be resolved through diplomacy and bilateral negotiations. In lodging a case, the Philippines seeks a multilateral and legal solution to the maritime dispute in which the interests of the international society are at stake. Expectedly, the consequence of the Aquino administration's challenge to China's expansive maritime claim is two-fold: it strengthens the Philippines-US alliance (as well as Philippine ties with Japan) and inescapably strains Philippines-China relations.

Despite its focus on geopolitics, however, the Aquino administration also pursued the less risky, 'low politics' and mundane foreign goals of providing assistance to OFWs and enhancing the country's economic security through development diplomacy. It retooled the foreign department in extending assistance to Filipino migrants workers in distress and initiated domestic programs to entice prospective OFWs to seek quality employment at home rather than abroad. This administration also included economic security as important foreign policy goal by directing the Philippine Foreign Service to take into account Secretary Del Rosario's instruction that "the business of diplomacy must include business promotion in the public interests."

Recommendations

A significant challenge that the new Philippine president will face after June 2016 is whether or not he or she will continue President Benigno Aquino III's policy of bringing geopolitics back into the country's external policy by challenging China's expansive claim in the South China Sea; while at the same time conducting the less risky, routine and mundane tasks of extending assistance to the OFW and pursuing economic security through development diplomacy. If he or she decides to pursue this soon-to-end administration's dynamic and multi-faceted foreign policy, the following measures should be considered:

- (1) Provide continuity by maintaining the strong backbone of Philippine foreign policy: protecting and assisting foreign nationals and promoting trade and investment.
- (2) Seek an increase in the budget of the DFA, to enable it pursue its threefold goals of protecting the country's territorial integrity; engaging in the less risky and mundane tasks of extending assistance to OFWs; and enhancing the country's economic security.

(3) Increase, retool, retrain, and recalibrate the Philippine Foreign Service and foreign service staff. As a matter of priority, these skills should include political and economic reporting; trade promotion; public diplomacy; and negotiation.

(4) Push for the passage of the National Security Act that will create a legislated National Security Council and an institutional intra-agency process that will lead and coordinate a whole-of-government approach to foreign policy and national defense.

(5) Actively support the current government's efforts to modernize and develop the AFP and the country's various intelligence agencies. Diplomats alone will not be enough for the Philippines to pursue all its foreign policy goals. A 21st century Philippine diplomacy must be supported by an externally oriented and modern intelligence community and backed by an armed forces with a credible defense posture geared for maritime and territorial defense.

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A 21st Century Philippine National Security Agenda: The Aquino Administration's Efforts for Developing a Credible Defense Posture

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The Philippine archipelago of 7,107 islands occupies a long maritime territory that stretches across 1,850 kilometers. Fragmented by inland waters, the country possesses one of the longest coastlines in the world; the Philippines has an irregular coastline spanning about 17,460 kilometers, or twice as long as that of the continental United States. The country is also geographically isolated from mainland East Asia as its maritime borders provide the country a moat against any external threat emanating from the Asian continent. Continued maritime security is crucial for the Philippines as an archipelagic state in Southeast Asia.¹

Ironically, however, the Philippines has previously focused on containing social unrest generated by economic inequity and the lack of national unity. Since 1946, Philippine national security concerns have been rooted in conflicts over the nature and identity of the nation-state, specifically over regime legitimacy, and over socio-economic inequality that continues to create tension between the state and society.² These conditions resulted in the primacy of the land-based security threat in the national security consciousness, with maritime defense taking a backseat to internal security and counter-insurgency operations. This situation was reinforced by the absence of any visible external threats emanating from the maritime domain and the Philippines' reliance on the US for its external defense requirements.³

In early 2009, however, the country was jolted by a ubiquitous Chinese naval presence in Philippine territorial waters and greater assertiveness in the Spratlys. This development started when the Philippine government passed Republic Act No. 9522 or the Philippine Baselines Act, which established a basis for maritime jurisdiction and fulfilled Philippine treaty obligations under the Law of the Sea

Convention. Soon after then-President Gloria Arroyo signed the bill into law in March 2009, China deployed a fishery patrol vessel and, in the following month, six more patrol vessels allegedly to curb illegal fishing in the disputed area. These moves manifested China's efforts to consolidate its own jurisdictional claims, expand its naval reach, and undermine the positions of other claimant states through coercive diplomacy.⁴ Belatedly, the Philippines realized the need to develop its naval capability to protect its vast maritime borders and its territorial claim over some islands in the South China Sea.

In his speeches and pronouncements, President Benigno Aquino envisioned the modernization of the Armed Forces of the Philippines (AFP) for "joint maritime surveillance, defense, and interdiction operations in the South China Sea."⁵ For him, the government's long-term goal is to establish a modest but "comprehensive border protection program" 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 will extend from Philippine territorial waters to the country's contiguous exclusive economic zone (EEZ).⁶ Within its six-year term, the Aquino administration exerted great efforts to develop the AFP's capability to assume a minimum but credible defense posture.⁷

Early Attempt at Force Modernization

In the mid-1990s, the AFP began an ambitious modernization program to transform the Philippine military into a conventional armed force comparable to most Southeast Asian militaries. This plan was the result of strategic developments at the end of the Cold War: the AFP's tactical successes against the communist insurgency; the Philippine Senate's non-concurrence to the 1991 Philippines-US Treaty of Friendship and Cooperation (PACT); and the subsequent departure of American military forces from the country in 1992.

By the early 1990s, the AFP had reaped the benefits of its *Lambat Bitag* (Fishing Net) strategy of deploying Special Operation Teams (SOT) in communist controlled villages, a strategy begun in the late 1980s. The *Lambat Bitag* strategy consisted of three components: first, the deployment of elite army units to conduct psychological/military operations in communist-influenced hamlets; second, a territorial security scheme forming local militias to defend the village against mobile insurgent groups; and third, stay-behind or consolidation operations facilitating the entry of civilian agencies bringing basic services and generating

economic activities in targeted villages.

In parallel, the Philippine Senate's non-concurrence to the PACT in 1991 prompted the AFP to consider developing a self-reliant capability-building posture through an initial 15-year modernization program encapsulated in the 1995 AFP Modernization Act (Republic Act No. 7898). In the absence of US forces and facilities in the country, the Philippine military had to develop its external defense capabilities for the first time. The AFP planned for the acquisition of multi-role fighter planes, off-shore patrol vessels, long-range maritime patrol craft, naval multi-role helicopters, coastal patrol boats, and a naval missile system.⁸ Congress, however, used its "power of the purse" to micromanage and delay the modernization program. The program's funding was eventually halted during the Asian financial crisis in 1997.⁹

In mid-1998, newly elected President Joseph Estrada declared a one-year moratorium on government funding to the AFP modernization program, citing more pressing domestic concerns resulting from the Asian financial melt-down and the national budget deficit. The lull enabled the AFP and the Philippine Department of National Defense (DND) to address the legal, administrative, and financial issues of the program.¹⁰ Nevertheless, six years after the law was passed, the Philippine Congress had released only PhP 5.4 billion of the PhP 50 billion promised in the law. The mandated 15-year period for implementing the modernization law lapsed in 2010 without any major acquisitions completed. (In 2012, the Philippine Congress extended the modernization period for further 15 years.)

Without sufficient resources to modernize its military and simultaneously confront the perennial security challenge of insurgency, the Arroyo administration directed the AFP to concentrate on internal security. The move bore heavily on the military and further deteriorated its territorial defense capabilities. In late 2001, President Arroyo issued Executive Order No. 21 or the National Internal Security Plan (NISIP). It called for a holistic approach, consisting of political, socio-economic/psychological, security, and informational components, to stamp out the root causes of the armed violence engendered by the insurgent movements. In response, the AFP formulated the 2002 Operation Bantay Laya (Freedom Watch) to "intensify the conduct of counterinsurgency operations" and eradicate the Abu Sayyaf and the communist New People's Army (NPA). The anti-insurgency program also tasked the military with neutralizing the Moro National Liberation Front (MNLF) and the Moro Islamic Liberation Front (MILF) to create in Mindanao a secure environment conducive for economic development. Consequently, the AFP was drawn into "fighting on two fronts"

(the communist insurgents in Luzon and the Visayas islands, and the MILF/Abu Sayyaf in Mindanao). In the process, it saw that its combat capabilities and government support were inadequate to end the communist insurgency and to disarm, demobilize, and integrate the MILF by 2010.¹¹

The AFP's territorial defense development efforts were relegated to the sidelines. Materiel intended for territorial defense were used for internal security purposes. Scarce financial resources for the AFP's modernization were diverted to meeting personnel costs and launching combat operations against insurgent groups; 70% of the defense budget went to personnel services, while only about 29% was allotted for maintenance and other operating expenses (MOE).¹² Capital outlay for the acquisition of new equipment amounted from zero to a mere one percent. An internal AFP paper bemoaned: "Unfortunately, this proportion for personnel and MOE leaves nothing for capital outlay which is necessary for the organizational development of the armed forces."¹³

Setting aside its modernization plan, the AFP simply upgraded existing capabilities through the AFP Capability Upgrade Program (CUP). The program involved refurbishment of transportation, upgrades to military firepower, and improvement of communications facilities for internal security operations.¹⁴ Even the scarce military resources provided for territorial defense operations dwindled. For example, in 2005, the AFP leadership decommissioned the PAF's remaining F-5 A/B fighters, leaving the country devoid of any air defense. The move came after the DND determined that there was "no immediate external security threat to the Philippines."¹⁵ Because there were no fighter planes, the PAF deactivated the Air Defense Command (ADC) as part of the "restructuring effort of the AFP to focus more on internal security."¹⁶ Moreover, the AFP was forced to utilize its military materiel continuously under "adverse combat conditions" causing excessive wear and tear which reduced their effectiveness and reliability.¹⁷

China's Naval Expansion in the South China Sea

With its robust economy, China has incrementally developed a formidable navy in the same period. China has had an annual double-digit increase in defense spending since 1993. Between 2001 and 2010, annual increases in Chinese defense budget have averaged approximately 10.9% in real terms, slightly higher than the growth rate of the national economy at 10.6%.¹⁸ An increased defense budget has enabled the People's Liberation Army Navy (PLAN) to acquire modern submarines and new types of surface combatants. Such force modernization has

changed China's strategic priorities from the defense of its territorial borders to force projection within East Asia and further offshore to secure sea lanes of communication.¹⁹ Thus, the PLAN has shifted from preempting possible US intervention in a Taiwan Straits crisis to developing the capacity to deny the US Navy access to the East China Sea and South China Sea or inside the so-called first island chain that runs from Japan's Okinawa to Taiwan down to the Philippines.

China's naval build up in the South China Sea is designed to bolster its anti-access/area denial capabilities, and thus prevent foreign navies from occupying or crossing vast stretches of maritime territories, and make the Western Pacific a no-go zone for the US Navy.²⁰ Nonetheless, to achieve this objective, the PLAN is developing the following capabilities: first, setting up anti-satellite missiles, lasers, and a sophisticated cyber-attack mechanism to target the US military's command and control systems that rely heavily on satellites to coordinate operations and logistics; second, obtaining conventional ballistic and cruise missiles, and stealth combat aircraft to attack major US military facilities in the region and to limit the US Navy's ability to maneuver in international waters; and third, acquiring submarines armed with advanced torpedoes and high-speed cruise missiles to counter US aircraft carriers and the surface vessels that protect them.²¹

In recent years, the PLAN has amassed a fleet of Russian-made, diesel-electric Kilo class submarines and Sovremenny class destroyers, along with several types of indigenously built destroyers, frigates, and nuclear-powered attack submarines. China has introduced three new classes of destroyers (Luyang I, Luyang II, and Luzhou) with sophisticated radar and air-defense weapon systems, as well as frigates (Jiangwei II, Jingkai I and Jingkai II) with improved war-fighting capabilities and seaworthiness.²² The PLAN has enhanced its operational capabilities across the waters surrounding Taiwan with the deployment of two new classes of ballistic missile and attack submarines. It has also equipped these submarines and surface combatants with new and more modern types of high-speed torpedoes, anti-ship cruise missiles (ASCM), and medium- and long-range air defense missile systems with vertical launch system (VLS) modules.²³ These naval developments enable the PLAN to extend its operational range from the first island chain to the second island chain, which extends from northern Japan to the Northern Marianas Islands, Guam, and further south to Palau.²⁴ This thrust is suggestive of China's intention to challenge the US for regional leadership in the Asia-Pacific littorals.²⁵

China's naval prowess generates regional tension by challenging the claims of small littoral states over parts of the South China Sea and by changing the strategic pattern in the maritime commons of East Asia and the West Pacific where the US

Navy has been dominant. Interestingly, Chinese media commentators, academics, and analysts have repeatedly emphasized the importance of naval power and the need to protect China's sovereignty over its surrounding waters. They agree that the PLAN should have unlimited operational range, and must possess blue-water capabilities to maintain a military presence at sea, provide deterrence, and conduct military diplomacy missions.²⁶

Notwithstanding its naval build-up and regular naval exercises, China avoids provocative naval deployment by assigning the routine patrolling of politically sensitive waters and land features to the vessels and aircraft of civilian agencies such as the State Oceanic Administration, its subordinate Marine Surveillance Force, and the Bureau of Fisheries now integrated under the Chinese Coast Guard.²⁷ China uses these civilian vessels to challenge and detain fishing boats from other littoral states; to explore and identify sites for future Chinese oil drilling; and to prevent other claimant states from deploying their seismic ships in energy-rich areas of the disputed waters. All these moves pursue one specific objective in the South China Sea: "to change the (territorial) status quo by force based on Chinese assertion, which is incompatible with the existing order of international law."²⁸

By the end of the first decade of the 21st century, China's myopic nationalism, growing naval prowess, and overt unilateral actions had been directed against a militarily-weak Southeast Asian country—the Philippines.

Discovering Territorial and Maritime Defense

Upon assuming the presidency in June 2010, President Aquino declared his unequivocal advocacy of transparency and accountability in governance, including support for an AFP modernization aligned with maritime territorial defense. Irritants in the South China Sea dispute continued to strain Philippines-China relations and pushed the Aquino administration to modernize the Philippine military. On March 2, 2011, two Chinese patrol boats harassed a survey ship commissioned by the Philippine Department of Energy (DOE) to conduct oil exploration in the Reed Bank (now called Recto Bank), 150 kilometers east of the Spratly Islands and 250 kilometers west of the Philippine island of Palawan. The Aquino administration was stunned by the Chinese action since this maritime encounter happened east of the Spratlys and its adjacent waters. Two days after the incident, the Philippine government filed a protest with the Chinese embassy in Manila. A Department of Foreign Affairs spokesperson commented that "the Philippines is (simply) seeking an explanation for the incident." Brushing aside

the Philippine complaint, a Chinese embassy official insisted that China has indisputable sovereignty over the Nansha Islands and their adjacent territory.

The March 2, 2011 incident at the Reed Bank and China's arrogant response to the Philippine diplomatic queries prompted the Aquino administration to hasten the development of the AFP's territorial defense capabilities. In June 2011, the executive branch of the government and the AFP agreed on a multi-year, multi-billion peso defense spending upgrade. The Department of Budget and Management (DBM) released a Multi-Year Obligation Authority (MOA) to the DND, allowing the AFP to enter into multi-year contracts with other governments or private arms and military hardware manufacturers. The DBM also committed PhP 40 billion (an estimated USD 800 million) over the next five years (2012-2016) to develop the AFP's capabilities in maritime domain awareness.

In October 2011, DND Secretary Voltaire Gazmin released the Defense Planning Guidance (2013-2018) restructuring the AFP to a "lean but fully capable" armed forces to confront the challenges to the country's territorial integrity and maritime security. It envisions the development of an effective force projection capability to monitor the Philippines' territorial waters and EEZ. It contains the following measures:

- a) 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;
- b) Acquisition of naval assets for off-shore patrol, strategic sea-lift, and an accompanying base support system and platform to sustain deployed maritime assets;
- c) Development of the AFP's long-range maritime air patrol and surveillance through the acquisition of assets for long-range maritime air patrol, and an accompanying base support system; and
- d) Reactivation of the Philippine Air Defense System (PADS) through the acquisition of air surveillance radar and a squadron of air defense/surface attack aircraft to provide air defense coverage over areas of high concern.²⁹

In December 2012, six months after the tense Scarborough Shoal stand-off between Philippine and Chinese civilian vessels, President Aquino signed into law Republic Act No. 10349 extending the AFP modernization program of 1995 by another 15 years. The implementation period of the original AFP modernization law (Republic Act No. 7898) expired in December 2011 without any significant arms acquisition for the Philippine military. RA 10349 extends the military modernization program up to 2027, to give the PN and PAF ample time

to develop and acquire new weapons systems needed for maritime security. The law also streamlined the procurement process and shortened the 29 stages into two assessment levels including the actual procurement and contracting stages.³⁰

The 2016-2021 Defense Planning Guidance states: “That the defense of the country’s territorial integrity and sovereignty, specifically in the West Philippine Sea, poses the most foremost security challenge... Hence, the primary end goal of the department is to develop a minimum credible posture for territorial defense and maritime security.”³¹ This will require the AFP to develop an effective force present in the (maritime) area that exhibits the competence to defend the territory and, second, greater surveillance and monitoring capabilities to further secure Philippine islands and prevent unoccupied islands/reefs from being occupied by other claimants.

These capabilities entail the AFP’s acquisition of the following weapon systems in the next few years: a) an integrated air defense system composed of air defense surveillance radars, light fighter/attack (F/A) Aircraft, a ground-based air defense (GBAD) weapons system, and multi-role fighters (MRF); and b) a maritime defense system made up of littoral observation stations (LOS) and maritime situational awareness centers (MSACs), four additional frigates, and a long-range patrol aircraft (LRPA).³²

The Philippines’ territorial defense goal is to establish a modest but “comprehensive border protection program.” This task is anchored on the surveillance, deterrence, and border patrol capabilities of the PAF, the PN, and the PCG that extend from the country’s territorial waters to its contiguous and Exclusive Economic Zone (EEZ).³³ This objective requires enhancing the AFP’s capabilities, prioritizing its needs, and gradually restructuring its forces for territorial defense. The long-term goal, according to the 2011 AFP’s Strategic Intent, is to maintain a “credible deterrent posture against foreign intrusion or external aggression, and other illegal activities while allowing free navigation to prosper.”³⁴ If deterrence fails, the last resort is to rely on hit-and-run tactics against the vastly superior PLAN and Air Force.

The Prohibitive Cost of a Credible Defense Posture

The current build up for territorial defense is a very expensive undertaking because the military often has to start from scratch. As a case in point, the Philippine air defense capability is zero in actuality because the PAF is close to a helicopter air force without any fighter planes. It has only one operational radar with a very

limited coverage area.³⁵ The PAF needs radars and other equipment; hangars, forward-operating bases, and command and control facilities; and maintenance. It will also need to undertake infrastructure projects, specifically basing and support systems, all over the Philippines.³⁶ Meanwhile, the PN plans to acquire two state-of-the-art frigates that require communications and weapons systems and mission-essential devices such as day/night electronic navigational equipment, communication suites, and safety of life at sea, propulsion and seamanship and ship-handling gears, and corresponding logistics support packages. Like the PAF, it also requires structural facilities such as new naval reservations, forward operating bases, and permanent and operating bases for its newly acquired ships³⁷.

The financial constraints on the Aquino Administration's modernization program are apparent in its efforts to acquire big-ticket items for the PAF and the PN. In November 2011, President Aquino announced the PAF's projected purchase of two squadrons of second-hand F-16C/D through the US Excess Defense Articles (EDA) program.³⁸ This acquisition, however, might cause tremendous financial strain on the AFP, which is still actively engaged in internal security operations. In fact, in line with the AFP's Oplan Bayanihan (Operation Community Spirit), the PAF continues to carry out counter-insurgency/counter-terrorism functions, such as intelligence-surveillance-reconnaissance (ISR); precision attacks to minimize collateral damages in ground operations; and education and information dissemination campaigns to win the hearts and minds.

In May 2012, President Aquino hinted that the PAF might acquire brand-new lead-in jet trainers that could be converted into fighter planes by modifying their air-frame.³⁹ In an interview, he admitted that the government found it too expensive to buy, much more maintain, second-hand fourth-generation jet fighters with only five serviceable years left. A sound alternative, he said, is to buy cheaper new fighter aircraft from the United Kingdom, France, or Italy, or South Korea.

The same year, the Philippine government started negotiations for the procurement of 12 Korean F/A-50 Golden Eagles from the Korean Aerospace Industries (KAI). The F/A-50's design was largely patterned after the US Lockheed Martin F-16 "Fighting Falcons." Both fighter planes have similar features: a single engine, and the same speed, size, and range of weapons system. These 12 F/A 50 interceptors can secure the Philippines' air space and simultaneously serve as trainer planes to develop the PAF pilots' "air command maneuvering (ACM)" skills.⁴⁰ During his two-day state visit in South Korea on 17-18 October 2013, President Aquino announced that both governments are finalizing the deal worth PhP 18.9 billion (around USD 450 million).

Negotiations concluded in March 2014, after nearly two years of difficult and tedious discussions. Guaranteed by the state-owned Korea Trade Promotion Agency (KOTRA), the contracts commit KAI to deliver the fighter planes to the PAF in 38 months. With air-to-air mid-distance attack and night-fighting capabilities, the 12 F/A-50s “Fighting Eagles” will act as interim jet fighters while the PAF waits for the funding and proper training needed for the purchase of fourth-generation multi-role combat interceptors.⁴¹ The Fighting Eagles are the PAF’s first jet fighter acquisition since it bought 25 F-8 fighter-bombers from the US in 1979. Thus, it was an important milestone for the PAF, which had not had operational fighter planes since the retirement of its two aging squadrons of Northrop F-5s in 2005. This was also the AFP’s first big ticket acquisition since its planned force modernization in the early 1990s.

The Aquino administration is also bankrolling the PN’s Desired Force Mix—an acquisition program aimed to obtaining limited anti-air/anti-submarine capabilities. Since 2012, the PN has been pushing for the acquisition of the aforementioned frigates for territorial defense, internal security operations, naval interdiction, and Humanitarian Assistance and Disaster Relief (HADR). These vessels will be equipped with air-to-air, anti-ship and anti-submarine weapons and sensors for extended and extensive patrolling and surveillance of the country’s vast maritime territory.⁴²

At present, the government is looking at the offers by South Korea and Spain to supply two brand new frigates. However, the project has been on hold for the last two years because the PN is in quandary over whether it will acquire cheaper second-hand ships or the more expensive newly constructed vessels. In the end, however, the final decision depends on the exigent need for the frigates, and more essentially, on the availability of public funds for the acquisition of these ships. As one ranking defense official notes, only vessels that will provide the country a “credible defense posture and [at] (more importantly) affordable cost will be selected.”⁴³

Despite its modest goals, the Aquino administration is still immobilized by scant financial resources. So far, the Philippine government has acquired two second-hand US Coast Guard Cutter (BRP Gregorio Del Pilar and the BRP Alcaraz). Though the PN has acquired six multi-purpose attack crafts (MPAC), the DND has postponed the purchase of a missile-armed MPAC for after the DBM finally releases the funds.⁴⁴ Furthermore, the PN could not source the much needed war materiel such as blue water missile-armed ships, search-and-rescue vessels, naval helicopters, strategic sealift ships and top-of-the-line interceptors to protect the country’s oil exploration projects and territorial claims in the South China Sea.

In 2014 and 2015, the DND requested an annual appropriation of PhP 24 billion (an estimated USD 500 million) and PhP 26 billion (an estimated USD 500 million) respectively for the AFP modernization program. However, both amounts were disapproved by the DBM. Instead, the AFP got PhP 9.7 billion (USD 200 million) in 2014, and PhP 20 billion (USD 400 million) in 2015 for a total shortfall of PhP 20.8 billion (USD 400 million) in two consecutive years.⁴⁵ During the deliberation on the revised AFP modernization bill in 2012, legislators proposed using part of government proceeds from the operation of the Malampaya Natural Gas Plant off the island of Palawan. The allocation of PhP 75 billion (USD 1.5 billion) is to finance 39 projects intended to boost the AFP's capabilities in the next five years.⁴⁶

In mid-2014, however, the Philippine Supreme Court issued a temporary restraining order (TRO) on the use of the Malampaya proceeds to finance government projects under the Priority Development Assistance Fund (PDAF) including the AFP modernization program. This halted the AFP's acquisition of communication devices, close air support aircraft, long-range patrol aircraft, radar systems, and engineering equipment.⁴⁷ It also set back the PN's plan for upgrades of vital naval infrastructure such as building of piers for larger vessels and the installation of a maritime surveillance radar system along the Philippine coastline.⁴⁸

Exasperated by the perennial lack of funds for the modernization program, then AFP Chief of Staff General Gregorio Pio Catapang publicly suggested that the government should pass a law allocating one percent of the national budget for the improvement of the Philippine military's capabilities in the light of China's continued expansion in the South China Sea.⁴⁹ Given its current pace and financial constraints, the AFP's territorial defense build up would hardly deter the PLAN in the contested areas because of the latter's procurement of modern surface combatants and submarines since the early 2000s.⁵⁰ The military imbalance between the Philippines and China will not be resolved in the foreseeable future even if the AFP develops a credible defense posture. Thus, the Philippines has no recourse but to link the AFP arms modernization program to its 64-year old security alliance with the US.

The US Factor in the Quest for a Credible Defense Posture: The EDCA

A significant factor behind the Aquino administration's stance against China in the South China Sea dispute is the country's long-standing alliance with the

United States. Undoubtedly, the Philippine military needs US assistance for its territorial defense requirement. The aforementioned transfer of two former US Coast Guard's Hamilton-class cutters to the PN was made possible through the Foreign Military Sales credit.⁵¹ Because the AFP is militarily weak and underfunded, Manila has asked for unequivocal US commitment to Philippine defense and security as provided for in the 1951 Mutual Defense Treaty (MDT).

Since June 2011, the Philippines has sought American naval/air support in the Spratlys. Philippine officials maintain that an armed attack on Philippine metropolitan territory and forces anywhere in the Pacific, including the South China Sea, should trigger a US armed response. However, the 1951 MDT does not entail any automatic response from either the Philippines or the US. It merely obligates the allies to consult each other and determine what military action, if any, both would take.

More recently, an increasing number of US policymakers are starting to share Philippine view that the archipelago is a strategic bellwether of China's maritime expansion in the West Pacific and at the same time, the natural barrier to check China's expansionism.⁵² Hence, the US must help the Philippines develop its own military naval capabilities to counter China's efforts at projecting power into the Asia-Pacific.⁵³

At the same time, the US' ability to guarantee the Philippines' external defense depends on whether American forces are physically prepositioned to provide immediate response. The US can effectively defend its ally only if it has access to facilities near the South China Sea from where it can quickly react during an armed confrontation. Thus, during the 16 August 2011 meeting of the Mutual Defense Board (MDB)/Security Engagement Board (SEB), the allies agreed to develop a framework for heightened bilateral and multilateral security and domain awareness. The boards proposed the following measures: a) deploying US maritime defense assets on a rotational basis in the Philippines to support MDB and SEB activities while the AFP develops its own capability for territorial defense; b) increasing joint bilateral maritime security activities in the South China Sea/West Philippine Sea; c) developing maritime security support facilities for joint use; d) improved information-sharing between US and Philippine forces; and e) conducting of integrated maritime security initiatives involving the US Pacific Command and the AFP.⁵⁴

Again in January 2012, when the Philippines-US Bilateral Security Dialogue was held in Washington D.C., Philippine foreign affairs and defense officials raised the necessity of an expanded US military presence in the country.⁵⁵ This presence was proposed in conjunction with China's increased naval activities in East Asia,

and the Obama administration's 2012 Strategy Guidance. This strategic policy change provides for a "rebalancing" of the US force structure and investments to meet persistent and potential threats in the Asia-Pacific region and the Middle East, and to advance capabilities for maintaining access and projecting power globally⁵⁶. Dubbed as the "US pivot" to the Asia-Pacific, the strategic guidance provides for stronger US military presence in the region that is "geographically distributed, operationally resilient and politically sustainable."⁵⁷ Unlike in the Cold War era, the Pentagon does not want any new permanent bases in relocating its air and naval assets in the Asia-Pacific region. Rather, it prefers access arrangements and rotational deployments that will allow US forces to conduct military exercises and operations demonstrating an American commitment to assist and protect allies and security partners.⁵⁸

On 28 April 2014, Philippine Defense Secretary Gazmin and US Ambassador to the Philippines Philip Goldberg signed the Enhanced Defense Cooperation Agreement (EDCA) a few hours before President Barack Obama arrived in Manila for his first state visit to the Philippines. EDCA is not a new security pact; it is merely an implementing text of the 1951 MDT.⁵⁹ This executive agreement serves as a framework by which the Philippines and the US can develop their individual and collective defense capabilities. Such a task can be accomplished through the rotational deployment of American forces in Philippine bases.⁶⁰ Although the EDCA allows American forces to utilize AFP-owned and -controlled facilities, the Philippine base commander has unhampered access to these locations. Likewise, American-built or -improved infrastructure inside these installations can be used by the AFP. Furthermore, any construction and other activities within the Philippine bases requires the consent of the host country through the MDB and SEB. As an executive agreement, EDCA is designed to minimize domestic opposition to US military presence in the country by explicitly affirming Philippine sovereignty and providing a legal framework for increased American rotational presence.

EDCA facilitates the deployment of American troops and equipment on a rotational basis and thus circumvents the sensitive issue of re-establishing US bases in the country. Interestingly, the negotiations were conducted amidst escalating tension between the Philippines and China over the South China Sea dispute. With its small and obsolete naval force and an almost non-existent air force, the AFP already benefits from regular short-term visits of US forces that conduct military training as well as perform humanitarian and disaster response operations. The Philippines hopes that the US construction of vital military facilities, infrastructure upgrades (such as hangars, an air defense surveillance

radar system, a ground-based air defense system, and naval operating bases), and the storage and repositioning of defense equipment in agreed locations can lower the cost of the modernization program since these buildings and equipment can be shared and utilized jointly by American and Philippine armed forces.⁶¹ More significantly, the Philippines is betting on the notion that an effective though rotational US deterrent force in its territory can minimize the potential for armed confrontation in the South China Sea. This can only be made possible through the EDCA.

Unfortunately, left-wing groups and ultra-nationalist personalities questioned EDCA's constitutionality as an executive agreement requiring no concurrence from the Philippine Senate. EDCA is currently in a legal limbo as both sides wait for a decision from the Philippine Supreme Court before the agreement could be fully implemented. However, confronted by Chinese island-building activities in the South China Sea, the sitting administration decided to push through with the development of Subic Bay as a training and forward-launching facility operated by the AFP and used by US forces. In September 2015, Defense Secretary Voltaire Gazmin reiterated the AFP's plan to rehabilitate the air and naval facilities in Subic Bay Freeport in the central part of the mainland island of Luzon. Subic Bay, a deep water harbor located fifty 50 miles northwest of Manila facing the South China Sea, was the service and logistics center for the US Seventh Fleet until November 1992. Accordingly, this move will enable the AFP to quickly deploy its forthcoming fighter planes and frigates to any contingency in the South China Sea.

The DND will spend PhP 100 million (estimated USD 2 million) to upgrade some of the former US military facilities of Subic Bay. The Philippine government announced that the rehabilitation of these facilities will happen soon, and it will be focused on the old airport facilities in the former Cubi Point Naval Air Station (CUBINAS). Prior to 1992, CUBINAS served as a base for the US Navy's P-3 Orion anti-submarine aircraft during the Cold War. The PAF will be allotted a 13-hectare portion of the old naval air base where shipping giant Federal Express (FedEx) used to operate. Along with the air station, a portion of Subic will also be developed as a naval base for PN ships. The free port's Ship Repair Facility compound will be the homeport of the PN's latest acquisitions—the BRP Ramon Alcaraz (PF-16) and the BRP Gregorio Del Pilar (PF-15). Other port facilities such as Alava Pier, Juliet Pier, Bravo Wharf and Rivera Wharf will also be developed as part of the PN's new naval base.

The Philippine government's plan to develop Subic Bay as a military facility was first announced in October 2012, four months after the Chinese occupation

of Scarborough Shoal. When it was announced, Philippine and US officials confirmed that the Philippine military facility in Subic Bay, once the US 7th Fleet homeport and the primary staging area for all American naval activities in Southeast Asian waters, would host US forces on a semi-permanent rotational basis. These US forces will engage the AFP in regular joint exercises to develop the latter's doctrine and equipment in territorial defense, and enhance the two allies' interoperability.

There were also plans to preposition US logistics assets in the Subic Bay, and utilize some of the port facilities to service US Navy ships. Earlier in April 2012, America's largest military shipbuilding company, Huntington Ingalls Industries (HII) subsidiary AMSEC signed an agreement with South Korean Shipbuilding Company Hanjin Heavy Industries and Constructions to provide maintenance, repair, and logistics for US Navy ships using Hanjin's dry docks in Subic Bay. Defense Secretary Gazmin admitted that US military presence in the AFP military facilities would help. However, if the court decides against EDCA, the Philippine government will still develop these facilities inside Subic Bay Freeport.

The US Navy has adopted the Philippine government's pragmatic position of utilizing Subic Bay with or without EDCA. Since mid-2015, several US Navy ships have docked there. In early May, the US Navy's newest littoral combat ship the USS Fort Worth (LCS-3) made a brief refueling and resupply stop at Subic Bay. Before the month ended, the Ticonderoga-class guided-missile cruiser USS Shiloh (CG-67) arrived in Subic Bay for a port visit. In July, the Arleigh Burke class guided missile destroyer USS Lassen (DDG-82) dropped anchor at the former US naval base for a routine port call. Early this month, the Los Angeles-class attack submarine USS Chicago (SSN-721) docked in Subic Bay for its first visit to the Philippines. With or without EDCA, both the AFP and the US Navy are exerting their respective efforts to turn Subic Bay into a major staging facility for US naval projection in the South China Sea.

Addressing Domestic Security Concerns: The Emphasis on the Peace Process

To enable the government and the AFP to focus their attention and resources to territorial defense, the Aquino administration decided to put an emphasis on the peace process with the country's major insurgent groups. The Aquino administration believed that a peace process that involved the mechanisms of direct negotiations and the offer of social reforms will resolve the domestic

conflicts in due time.⁶² The goal was to reduce the domestic armed threats to a level wherein they can no longer threaten the stability of the state and wherein civilian authorities can ensure the security of ordinary Filipinos.⁶³ Consequently, in the long run, the AFP would hand over to the local government and police units the management of internal security-related threats so that the national government and the AFP will be able to reallocate resources from counter-insurgency operations to territorial defense capability-building.⁶⁴

In early 2010, The Aquino administration restarted the peace negotiations with the country's two main insurgent movements—the communist-led National Democratic Front (NDF) and the secessionist MILF. Preliminary talks between the government peace panel and the NDF's negotiating team took place in January 2011 in Oslo, Norway. Initial talks between the Philippine government (GRP) and the MILF also began in January 2011 in Kuala Lumpur, Malaysia. Negotiations between the GRP and the NDF, however, stalled because of the latter's allegations that the AFP had arrested several of its alleged consultants. In January 2011, military agents arrested the NPA head of national military staff, Tirso Alcantara. However, the NDF asserted that Alcantara is covered by the immunity agreement and should be released before any resumption of the peace talks. The NDF became intransigent as it demanded the releases of their alleged consultants as a pre-condition for any resumption of the peace talks. After the visit to Manila of a Royal Norwegian Government representative in September, and the government's release of its five alleged consultants, the NDF agreed to resume the peace talks with the administration's negotiating panel without any further preconditions in October 2011. Alexander Padilla, the GRP's lead peace negotiator, expressed optimism that the three-year timetable that he set to forge a peace agreement with NDF would be realized in 2013.

The 2011 GRP-MILF peace talks began with cautious optimism. The MILF initially aimed for a Moro state independent from the predominantly Christian nation. However, it eventually settled for expanded autonomy based on an idea of a 'sub-state' within the Philippine state. Accordingly, a Muslim sub-state would have its own local government and judicial systems, while dependent on the central government for national defense, postal services, and currency. In early August, President Aquino and MILF chairman Murad Ebrahim met in Tokyo to jump-start the 14-year old peace talks. However, formal peace negotiations ended abruptly three weeks later when MILF negotiators rejected the GRP's proposal for an expanded autonomy for the Autonomous Region of Muslim Mindanao (ARMM) that included proposals for major economic development, a lasting

peace accord, and historical acknowledgement of the Muslim struggle.

The GRP reasoned that it could not accede to a Moro sub-state since this would require amending the 1987 Philippine Constitution. Malaysian mediator Tengku Dato Abdul Ghafar bin Tengku had to fly from Kuala Lumpur to Manila in a last ditch effort to resolve the impasse between the two sides. Fortunately, the MILF has not formally rejected the GRP's proposal and expelled a rogue commander who had formed his own group and had continued to call for a complete secession from the Philippines. While both sides continued to criticize each other, the GRP and the MILF indicated that they wanted to continue the 14-year old peace process.⁶⁵

In early 2012, government negotiators expressed optimism that a peace agreement with the MILF is possible within President Aquino's term. Speaking in a forum organized by the Japan International Cooperation Agency, the Presidential Adviser on the Peace Process, Teresita Quintos-Deles, said that despite daunting disagreements during the negotiations, the ceasefire between the MILF and the AFP still held. In April 2012, both sides signed the "GRP-MILF Decision Points on Principles" in Kuala Lumpur that recognizes Bangsamoro as a secular political unit within Philippine territory and subject to Philippine sovereignty.⁶⁶ During the 32nd round of the Exploratory Talks on the Peace Process in Kuala Lumpur in early October 2012, the two parties agreed on a framework agreement for the creation of a Bangsamoro entity to replace the Autonomous Region of Muslim Mindanao composed of five Muslim dominated provinces. The GRP and MILF negotiators were one in saying that the peace process was now on "the home stretch and the smell of success is reinforced every day."⁶⁷

In 2013, however, the peace process with the MILF encountered two road bumps. On 11 February, 200 Muslim Filipino insurgents crossed the Sulu Sea and landed on the coast of the Malaysian state of Sabah. Calling themselves the Royal Army of the Sultanate of Sulu, the insurgents occupied sleepy Tanduo Village in the district of Lahad Datu. They then declared that they had come to Sabah to enforce the Sultanate of Jolo's claim on the Malaysian state. At the onset of the crisis, Malaysian security forces thought that the insurgents were Islamic militants from Mindanao. From Manila, however, the late Jamalul Kiram (the alleged Sultan of Sulu) declared that he was the legitimate sultan of Jolo, that the insurgents were his soldiers and that they had come to reclaim Sabah for the sultanate. After Kiram's announcement, the Malaysian army and police began their operation against the armed invaders from the Philippines. Malaysian army and police units deployed their forces in and around the village and gave the

insurgents an ultimatum to leave the island.

On 1 March, armed clashes erupted when two Malaysian police officers were shot dead; Malaysian forces killed 17 invaders even before the ultimatum expired. This initial skirmish forced the insurgents into the areas surrounding Tanduo.⁶⁸ Malaysian security forces then launched a full-scale assault on the village against the insurgents. After a clearing operation that lasted for days, Kuala Lumpur announced that its forces had regained control of the village and surrounding areas, while the surviving insurgents had either escaped back to Mindanao or melted into the various Filipino communities in Sabah.

The incident shocked and embarrassed the Aquino administration, which promptly denied any involvement in the incursion. Although Manila has never publicly denounced its five-decade long claim to Sabah, the Aquino administration conveniently allowed the claim to remain dormant in light of Malaysia's important role in the peace process between the GRP and the MILF. Both Manila and Kuala Lumpur have a common interest in ending the secessionist rebellion in southern Philippines. An outbreak of another major conflict in Mindanao could have spillover effects into the neighboring Malaysian state of Sabah. However, Kiram's Sabah invasion revived the issue of the Philippines' claim to this resource-rich Malaysian state. The revival of this claim could cause a deterioration in Philippines-Malaysian relations at a time when Kuala Lumpur was acting as the main peace-broker between the GRP and the MILF.⁶⁹

The Aquino administration suspected that the incursion into Sabah by the Royal Army of the Sultan was a plot to undermine the GRP-MILF peace process. This suspicion stems from the fact that many of the insurgents who invaded Sabah are known members and commanders of another Muslim secessionist group, the MNLF. In 1998, the GRP and the MNLF signed a peace agreement. However, many MNLF members were never disarmed. An MNLF spokesperson during the Sabah invasion expressed support for Kiram's claim while denying that his group had a hand in the incident. Suspiciously, the MNLF chairman Nur Misuari complained that the peace agreement between the Aquino administration and the MILF had marginalized his secessionist group.⁷⁰

The Aquino administration's suspicion regarding the role and motives of the MNLF in the Sabah Crisis was confirmed when about 250 MNLF insurgents stormed the City of Zamboanga in mid-September. Prior to the incident, MNLF members under the Misuari wing of the movement declared their independence from the Philippines while citing their indignation over their exclusion from the ongoing peace talks between the government and the MILF. Misuari argued that the

peace process between the Aquino administration and the MILF had superseded the 1998 GRP-MNLF peace agreement which provided for the cessation of the MNLF's rebellion against the GRP and the creation of the Autonomous Region of Muslim Mindanao, which was made up of the predominantly Muslim provinces of Basilan, Tawi-Tawi, Lanao del Sur, Maguindanao and Sulu.

A dangerous stand-off began as the Aquino administration deployed 3,000 Marines, other soldiers, and policemen from the Special Action Force (SAF) of the Philippine National Police (PNP) in the city. The MNLF responded by taking 140 residents as hostages. The government then cordoned off the entire city, declared a no-fly zone and imposed a curfew on the residents. After giving the MNLF an ultimatum, government forces launched a massive and coordinated counter-offensive against the insurgents who had occupied portions of Zamboanga, a majority Christian city. Government forces used artillery, helicopters and attack planes to pound rebel strongholds while ground troops and navy ships cut off land and air routes around the city. This effectively prevented 200 MNLF forces from escaping to the rest of the Zamboanga peninsula and Sulu archipelago beyond. The fighting lasted for more than two weeks and resulted in the death of more than 200 MNLF insurgents, soldiers, policemen, and civilians all told; the destruction of 1,000 buildings and residential houses; and the displacement of nearly 82,000 civilians from their homes.

The Aquino administration was able to prevent the rebellion from spreading to other parts of Mindanao. However, the armed crisis revealed the fragility of the security situation in Mindanao, challenged the government's capacity to respond to security and humanitarian crises, and exposed the vulnerability of the peace initiative to those with an interest in undermining the process for whatever reason.⁷¹ The two armed clashes in Mindanao in 2013 showed the resilience of domestic security challenges that can still undermine the AFP's shift to territorial defense.

In 2015, a deadly clash occurred between the PNP's SAF and elements of the MILF along with other armed groups in Mamasapano, Maguindanao province. The Mamasapano incident resulted in the death of 44 SAF members and the delay of the passage of the Bangsamoro Basic Bill (BBL) in the Philippine Congress. The incident again exposed the fragility of the peace process with the MILF. A resumption of hostilities between the AFP and the MILF upsets the DND and AFP's timetable to terminate the military's internal security operations before 2016, and again prevents the Philippine government from diverting resources away from counter-insurgency to territorial defense and maritime security.⁷²

Conclusion

In March 2011, after a confrontation between Chinese civilian vessels and a Philippine survey ship in the Reed Bank and the subsequent fall-out in Philippines-China relations, the Aquino administration decided to build up the AFP's external defense capabilities. The administration's goal is for the Philippine military to develop a credible defense posture through building the capabilities of the PN and the PAF for maritime domain awareness and limited air/naval interdiction. Four years into the program, the Aquino administration found it difficult to acquire big ticket items for the PN and the PAF because of the modernization law's tedious and complex bidding procedure and the considerable shortfall in the annual government funding. To date, the government has acquired only two former US coast guard cutters for the PN and signed a contract with KIA for the delivery of 12 F/A fighter plans for the PAF in 2016.

Faced with budgetary constraints and aware of the fact that no amount of arms buildup can narrow the wide—in terms of military might—gap between the Philippines and China, the Aquino administration depends on the Philippines' longstanding alliance with the US by seeking an unequivocal security guarantee as provided for in the 1951 MDT. In line with this, the administration successfully negotiated and signed the EDCA to boost the US guarantee for Philippine external security. The Philippines expects that an American build up of military infrastructures and installations inside Philippine bases for joint use will reduce the cost of military modernization. Likewise, it sees the rotational and temporary presence of American forward-deployed forces on Philippine territory as a strategic deterrence to any armed confrontation or clash in the South China Sea.

As a component of its overarching goal of shifting the AFP's attention and efforts away from internal security to territorial defense, the Aquino administration jumpstarted the peace processes with the communist revolutionary and Muslim secessionist movements. Through this process, the government hoped that the armed internal threat would be reduced to a level wherein it can no longer threaten the Philippine state and its people. Eventually, the AFP would delegate its leading role in the government's counter-insurgency campaign to the local governments and PNP. This would enable the DND and the AFP to reallocate its limited resources toward developing the military's territorial defense capabilities.

However, the Filipino Muslim insurgents' invasion of the Malaysian province of Sabah in February 2013 and the MNLF's siege of Zamboanga City in September of the same year demonstrated the resilience of domestic security challenges. In 2012, the DND declared that the defense of the country's territorial integrity

and the security of the Philippines' maritime domain will be the AFP's foremost priorities followed by HADR and internal security concerns by 2014.⁷³ However, the bloody January 2015 clash between the SAF and elements of the MILF and other armed groups in Mamasapano in the province of Maguindanao, and the subsequent delay in the passage of the Bangsamoro Basic Law (BBL) in the Philippine Congress risk the resumption of hostilities between the AFP and the MILF. This will mean that internal security will remain as the country's primary security threat way into the second decade of the 21st century and prevent the AFP from relegating its counter-insurgency tasks to the local government units and the PNP. This can undercut the DND-AFP's plan for shifting the country's strategic attention and efforts away from internal security to maritime territorial defense.

Summary and Recommendations

The Aquino administration's national security policy is linked with its foreign policy agenda of challenging China's maritime expansion in East Asia. The main thrust of this policy is the strategic shift of the AFP's focus and efforts away from internal security to territorial and maritime defense. In 2011, the Aquino administration decided to bolster the development of a credible external defense posture on the part of the AFP by upgrading of the PN's and PAF's capabilities for maritime domain awareness and naval interdiction. Unfortunately, the government's efforts to acquire materiel for territorial defense have been hampered by the program's high cost, limited budget, and the revised modernization law's tedious procurement procedure. Consequently, the Philippines has anchored its strategic agenda to the 60-year old Philippines-US alliance by signing the EDCA. The Philippines expects that an American buildup of military infrastructures and installations inside Philippine bases for joint use will reduce the cost of military modernization. Likewise, it sees the rotational and temporary presence of American forward-deployed forces on Philippine territory as a strategic deterrence to any armed confrontation or clash in the South China Sea. The sporadic outbreaks of clashes between government forces and the several armed groups in Mindanao since 2013, along with the delay in passage of the BBL, however, can delay or even prevent the government and the AFP from moving away from internal security to territorial and maritime defense.

The new administration in June 2016 should continue the Aquino administration's efforts to effect the most drastic positive change in Philippine defense policy. To do so, it should consider the following policy recommendations:

1. Pass a National Security Act of the Philippines to create a legislated and more influential National Security Council (NSC) that will formulate the country's national security strategy and policy. The shift of the AFP from internal to maritime territorial defense requires a whole-of-government approach that can only be managed by a National Security Council created by legislation. The current NSC was reestablished in 1986 through an executive order that provided for the post of a National Security Advisor (NSA) tasked to advise the president and for NSC Secretariat to provide staff support to the NSA. However, the DND is still the primary agency responsible for national security. A National Security Act will provide for the formation of a NSC within the executive branch that will serve as the president's primary agency for coordinating the various domestic and external policies among various government agencies in matters related to national security.

The NSC would be tasked to assess the Philippines' security interests, examine the internal and external environments in relation to the same, and recommend a course of action to the president in line with a national security strategy. The NSC would be tasked to formulate a national security policy or strategy document that will provide the policy basis for this major strategic undertaking, including the national military strategy and complementing the Philippine Development Plan. The NSC would convene and lead the inter-agency process for national security and consolidate the president's positions with the departments' and agencies' inputs on national security matters.

2. Increase the Philippine defense budget from its current ratio of 1% of the Gross National Product (GNP) to 2% of the GNP. The programmed acquisition of new equipment for the PAF and PN along with this equipment's periodic maintenance, the constructions of ports, hangars, and air bases, and the training of military personnel who will use this new military materiel requires a dramatic increase in defense spending. The Philippine government should increase the ratio of the defense budget to the GNP to finance this undertaking.

3. Provide a fixed term for the chairman and service commanders of the AFP Joint Chiefs of Staff to institutionalize the necessary reforms in the military. Currently, members of the Joint Chiefs of Staff who have reached the age of 56 retire despite having been in their respective positions for only a couple of months. The current "revolving door system" is the result of the mandatory retirement of the chairman of the

Joint Chiefs of Staff and the service commanders once they reach the age of 56. The current AFP Chief of Staff, General Hernando Iriberry, was appointed in July 2015 and is set to be replaced by April 2016. Ten months is not enough for General Iriberry to implement his intended reforms in the AFP.

The revolving door system prevents a reformer within the AFP from ensuring the institutionalization and continuity of reform-minded programs and policies. It exposes the head and the members of the Joint Chiefs to constant political influence from the executive and legislative branches of the government. A fixed term for the chairman will ensure the continuity of programs within the military and will better insulate him and the service commanders from politics. The Philippine Congress can pass a law providing a fixed term of three years for the chairman, the staff members, and the service commanders even after 56.

4. Develop a credible defence posture that would make a potential adversary think twice before using force against the Philippines and, in case of an armed confrontation, enable the AFP to inflict costly damages to the enemy. The efforts to redirect the AFP from internal security to territorial defense are geared for a modest defensive goal of developing a comprehensive border patrol system and definitely not naval war-fighting capabilities; equipping the PAF and PN to monitor and secure Philippines-controlled land features in the South China Sea and adjacent waters, and demonstrating a credible force presence in the area that can project necessary capabilities defending the territory.

5. Foster a trilateral armed forces prepared for maritime territorial security. This will involve enabling the Philippine Army (PA), PAF, and PN to develop maritime awareness capabilities and limited maritime/air interdiction competencies for joint force warfare. This will necessitate the redistribution of the defense budget away from the PA to the PAF and the PN. This will also require the president's periodic appointment of the chairman of the Joint Chiefs of Staff from the Air Force or Navy rather than from the PA.

6. Create a separate and composite unit in the AFP that can support the PNP's counter-terrorism/counter-insurgency efforts and for HADR operations. This unit can be formed by combining the Army's Special Forces, Airborne, and Ranger formations with the Marines Reconnaissance Units and the PN's Special Action Force under one command. This composite unit will be supported by Air Force and

Navy air and sealift units. The 25 January 2015 Mamasapano clash between members of the PNP's SAF with members of the MILF and the Bangsamoro Islamic Freedom Fighters (BIFF) resulted in the deaths of 44 members of the SAF. The operation caught Filipinos' attention for the high number of police personnel killed in a single operation. The clash is considered the most humiliating defeat inflicted against the government's elite units in recent years. The incident showed that the SAF and the PNP as a whole are not yet prepared to take over the task of internal security from the PA and the Philippine Marines. The AFP should continue to provide support to the PNP by forming a composite unit that will serve as a mobile and rapid response force. The unit can also be deployed to assist local government units and the Department of Interior and Local Government during natural calamities.

7. Prepare and train the AFP for combined operations with allied forces, especially the United States and its other bilateral allies such as Japan, Australia, and South Korea. No amount of resources and arms acquisition can enable the Philippines to face an assertive and militarily powerful China in the South China Sea. The Philippine efforts to develop the PN's and PAF's capabilities for early warning, surveillance, and command, control and communication must be designed for "joint operations capabilities" in maritime defense and interdiction operations with allied countries. Thus, the Philippine efforts to develop a credible defense posture must be seen as a complement (rather than a substitute) to the strategic deterrence provided by US forward naval deployment and bilateral alliances in East Asia.

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Foreign Direct Investment, Exports, and Philippine Economic Growth

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The disappointing performance of the Philippine economy in the past has generally been attributed to several factors, including macroeconomic instability, poor infrastructure, lack of competition, low labor productivity, weak governance, and low and declining investments as a percentage of Gross Domestic Product (GDP).

However, the Philippine economy has demonstrated strong economic growth over the recent five years (2010-2014), en route to a 7.6% growth rate in 2010. Recently, the government has initiated policy reforms aimed at increasing the competitiveness and efficiency of the economy.

The Philippine Development Plan 2011-2016 (PDP) has set output and employment targets, which require increasing investments, which, in turn, raise the demand for labor. The PDP has recommended specific interventions to improve the business climate, increase productivity, improve infrastructure, increase innovative capacity, and attain rapid and sustained economic growth, envisioned to eventually reduce poverty.

Specifically, its goal is to reorient the economy towards investments, trade, and exports. Legislative acts in support of the reform agenda have been passed by the Philippine Congress. Among these are the Financial Rehabilitation and Insolvency Act, the K-to-12 Law, the Go Negosyo Act, the Competition Act, and the Amendment to Cabotage Law. Reform bills still pending in Congress include the Tax Reduction Act, the Fiscal Incentives Rationalization Act, the Customs Modernization and Tariffs Act, the Amendments to the Foreign Investment Negative List Act, and the Build-Operate-Transfer (BOT) Law.

Aldaba (2013) and Llanto and Ortiz (2015) have described a new industrial policy that has been set in place by the Philippine government. The goals include improving the investment climate, efficient use of existing capacity, and expansion of productive capacity through technological catch-up and structural transformation. Support for industrial upgrading and transformation in 15 identified industries are implemented based on the following criteria: (1) strong potential to generate employment; (2) capacity to address missing gaps; (3) strong linkages and spillover effects; (4) higher level of product sophistication; and (5) operating in competitive market environment.¹

This paper revisits the relationship between foreign direct investment (FDI), exports, and economic growth. An underlying aim of the paper is to provide a broader perspective of the gap between empirical evidence and public policy pronouncements.

This paper is divided into the following sections: (a) the performance of the industrial sector; (b) relationship between FDI and growth; (c) policy implications of the FDI-growth link; and (d) Export-growth link

The Performance of the Industrial Sector

Many studies have concluded that the adoption of an import-substitution development strategy instead of an export promotion strategy had led to an inefficient industrial structure that caused Philippine industry to lag behind its fast-growing ASEAN counterparts. The industrial sector's employment absorption was limited, productivity declined, no structural change took place, manufacturing was highly concentrated, and the incentive structure was biased in favor of large and capital-intensive firms, with companies in Metro Manila getting the lion's share (Power and Sicat, 1971; ILO, 1974; Bautista et al. 1979; World Bank, 1987; Pante and Medalla, 1990; and Aldaba, 1994).

A look at the economy-wide performance among the ten ASEAN economies during the 2009-2014 period (see Table 11) shows that the Philippines is among the fastest-growing economies during this period, along with Indonesia, Malaysia, and Vietnam. Table 1 presents the growth rates of the industrial sectors of ASEAN 6 from 1990 to 2010. The growth trend in the 2000-2010 period (the recent data in the table) shows Singapore leading the pack, followed by Vietnam, Malaysia, and Philippines in that order. Singapore's growth (15.2%) is far better than that of China (11.2%) during this period. In terms of industry's share in GDP, Indonesia's industrial sector has the highest share in 2010 at 47% followed by that of Thailand

at 44.7%. On the other hand, Singapore's industrial sector has the lowest share at 28.3%, followed by that of the Philippines at 32.6% (see Table 2). Malaysia's industrial sector accounts for the highest share in employment during the 2000-2010 period, followed by that of Singapore. The Philippines' industry share in employment is the lowest among the ASEAN 6. Singapore's industry share of employment is approximately twice that of the Philippines during this period (see Table 3).

*Table 1: Industry Growth Rates for ASEAN 6: 1990-2010
(In Percent)*

Country	1990	1995	2000	2005	2010
Indonesia	11.5	10.4	5.9	4.7	4.7
Malaysia	11.0	14.9	13.6	3.6	8.6
Philippines	2.6	6.7	9.0	4.2	11.6
Singapore	9.5	9.6	12.4	8.2	25.1
Thailand	16.1	10.9	5.3	5.4	12.8
Vietnam	2.3	13.6	10.1	10.7	7.7

Source: ADB, Key Indicators for Asia and the Pacific (various years)

*Table 2: Industry Share in GDP for ASEAN 6: 1980-2010
(In Percent)*

Country	1980	1985	1990	1995	2000	2005	2010
Indonesia	43.4	39.7	39.1	41.8	45.9	46.5	47.0
Malaysia	-	36.7	42.2	40.5	46.8	48.7	43.6
Philippines	38.8	35.1	34.5	32.1	34.5	33.8	32.6
Singapore	38.1	36.6	34.4	33.3	34.5	31.6	28.3
Thailand	28.7	29.9	37.2	40.7	42.0	44.0	44.7
Vietnam	23.1	31.3	22.1	28.8	36.7	41.0	41.1

Source: ADB, Key Indicators for Asia and the Pacific (various years)

*Table 3: Industry Share in Employment for ASEAN 6: 1980-2010
(In Percent)*

Country	1980	1985	1990	1995	2000	2005	2010
Indonesia	13.1	13.4	13.7	18.4	17.4	18.7	19.3
Malaysia	24.1	23.8	27.5	32.3	32.2	29.7	27.0
Philippines	15.4	13.8	15.0	15.6	16.2	15.6	14.6
Singapore	35.7	35.2	37.9	31.0	33.8	21.7	21.8
Thailand	10.3	12.1	14.0	19.8	19.0	20.2	19.5
Vietnam	-	-	8.8	8.6	10.1	18.2	-

Source: World Databank, World Development Indicators, and Global Development Finance (various years)

A comparison among the ASEAN 6 share in manufacturing employment shows that in 2010, Vietnam's manufacturing sector accounts for 21.1% of employment, while the manufacturing sector of the Philippines posted the lowest manufacturing employment share at 8.4% (see Table 4).

Table 4: Manufacturing Share in Employment for ASEAN 6: 1980-2010
(In Percent)

Country	1980	1985	1990	1995	2000	2005	2010
Indonesia	9.1	9.3	10.1	12.6	13.0	12.7	12.8
Malaysia	15.5	15.3	19.9	23.3	23.5	19.8	16.9
Philippines	11.0	9.7	10.1	10.2	10.0	9.5	8.4
Singapore	30.1	25.4	21.7	17.5	13.8	12.1	9.6
Thailand	7.9	8.0	9.8	15.0	14.9	15.9	14.1
Vietnam	10.7	10.8	7.8	8.0	9.3	17.4	21.1

Source: ADB, *Key Indicators for Asia and the Pacific* (various years)

Looking at the Philippine situation alone, Table 5 shows the dominance of the manufacturing sector based on the real gross value added (GVA), which in 2014 is almost equal to the GVA of the industrial sector in 2008. Table 6 shows that the fastest growing industrial sub-sectors in the 2012-2014 period are manufacturing and construction. Since manufacturing dominates the industrial sector, as shown in Table 7, its dynamism and sustained growth are key in employment growth in the industrial sector.

Table 5: Gross Value Added in the Industrial Sector: 2009-2014
(In Millions Pesos at 2000 Prices)

Industry Group	2008	2009	2010	2011	2012	2013	2014
Mining and Quarrying	50,926	59,130	65,898	70,509	72,047	72,895	76,474
Manufacturing	1,194,921	1,137,534	1,264,523	1,324,330	1,395,711	1,538,912	1,666,514
Construction	266,751	284,994	325,820	293,870	339,921	384,109	422,150
Electricity, Gas, and Water Supply	186,572	184,943	203,274	204,547	214,944	223,208	229,556
Industrial Sector	1,699,171	1,666,601	1,859,515	1,893,256	2,022,623	2,219,124	2,394,694

Source: *Philippine Statistics Authority*

*Table 6: Real Growth Rates in the Industrial Sector: 2008-2014
(In Percent)*

Industry Group	'08-'09	'09-'10	'10-'11	'11-'12	'12-'13	'13-'14
Mining and Quarrying	1.6	11.4	7.0	2.2	1.2	4.9
Manufacturing	-4.8	11.2	4.7	5.4	10.3	8.3
Construction	6.8	14.3	-9.8	15.7	10.3	9.9
Electricity, Gas, and Water Supply	-0.9	9.9	0.6	5.1	3.6	2.8
Industrial Sector	-1.9	11.6	1.8	6.8	9.2	7.9

Source: Computed based on data from Table 5

Table 7: Percentage Share of Gross Value Added in Industrial Sector: 2008-2014

Industry Group	2008	2009	2010	2011	2012	2013	2014
Mining and Quarrying	3.0	3.6	3.5	3.7	3.6	3.3	3.2
Manufacturing	70.3	68.3	68.0	70.0	69.0	69.3	69.6
Construction	15.7	17.1	17.5	15.5	16.8	17.3	17.6
Electricity, Gas, and Water	11.0	11.0	11.0	10.8	10.6	10.1	9.6
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Computed based on data from Table 5

Table 8 provides a picture of the degree of structural transformation in the economy. From the 1980s to the 2000s, the industrial (and manufacturing) sector's shares of value added and employment are declining continuously, with its average growth rates over the period likewise remaining anemic compared to the services sector.

The secular lack of structural transformation is further confirmed when the recent cyclical period is analyzed. Table 9 shows that the share of manufacturing in valued added stays practically at 23% from 2012 to 2014, and its share of employment stays within the 8.4% to 8.5% range for the same period.

This clear evidence of a lack of structural transformation requires a redirection of our long-term manufacturing strategy towards the following directions: (1) rebuilding capacity of existing industries; (2) strengthening emerging industries, (3) maintaining competitiveness of comparative-advantage industries; (4) moving into high value-added sectors; and (5) deepening participation in regional production networks in automotive, electronics, machinery, garments, and food industries (Aldaba, 2013).

Austria (2009) made some recommendations in order to make the Philippines more capable of benefiting from the global value chain. First, the country has to move away from the assembly and testing segment of the production chain because it is labor intensive and the country cannot compete with the likes of China which has lower labor costs. The Philippines thus has to undergo industrial upgrading and technological learning in order to specialize in high-value production. Instead of competing with the low labor cost countries, it should find niches to complement these countries.

Second, the government should invest in developing local supplier industries because this is the only way that multinational corporations (MNCs) can increase the local content of goods produced by them in the country. Lastly, the country must invest in good infrastructure and logistics that can lower production costs and enable a more efficient management of the supply chain. This includes lowering communication and power costs as well as ensuring adequate port systems that can cut travel times. The country thus should open up infrastructure investment to the private sector. To attract private investors, the regulatory and legal environment must be reformed. There is a need to ensure the stability of long-term investment agreements, which then leads to a more credible policy environment that can boost investor confidence.

Intal (2009) also emphasizes the need for political stability to improve the investment climate. According to him, the country needs substantial levels of investment so that it can move away from its dependence on semiconductor and garment exports which are vulnerable to competition from countries with lower labor costs.

*Table 8: Sectoral Growth and Average Share in Value Added and Employment
(In Percent)*

Sector	Value Added Average Growth			Value Added Average Share			Employment Average Share		
	1980s	1990s	2000s	1980s	1990s	2000s	1980s	1990s	2000s
Agriculture	1.1	1.8	3.0	23.9	20.8	18.9	49.6	43.2	36.1
Industry	0.3	3.0	4.2	38.0	34.1	33.1	14.5	16.0	15.1
-Manufacturing	0.9	2.5	4.1	26.3	24.3	23.7	9.9	10.0	9.1
Services	3.3	3.6	5.8	40.4	42.4	48.0	35.9	40.9	48.8
Gross Domestic Product	1.7	3.0	4.7	100.0	100.0	100.0	100.0	100.0	100.0

Source: Aldaba (2013)

*Table 9: Sector Growth and Share in Value Added
and Employment: 2013-2014
(In Percent)*

Sector	Value Added Growth		Value Added Share		Employment Share	
	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14
Agriculture	1.1	1.9	10.4	10.0	30.4	30.0
Industry	9.3	7.5	32.8	33.3	15.8	16.0
Manufacturing	10.3	8.1	22.7	23.2	8.5	8.4
Services	7.2	6.0	56.8	56.7	53.8	53.9
GDP	7.2	6.1	100.0	100.0	100.0	100.0

Source: Llanto and Ortiz (2015)

Does Foreign Direct Investment Promote Growth?

Developing countries offer tax incentives, infrastructure subsidies, training subsidies, import duty exemptions, credits at subsidized rates, and other incentives to attract foreign firms. These incentives operate on the logic that increased FDIs lead to: (1) employment generation; (2) increased capital stock and wages; (3) a boost in exports and foreign exchange; and (4) valuable productivity externalities such as knowledge spillovers and linkages between multinational corporations and domestic firms.

However, actual studies on the subject are divided regarding the effect of FDI on economic growth, with some forecasting a positive relationship and others claiming that no such link exists.

The following provides a brief review of related literature as to whether FDI generates positive externalities for host countries, most of which are developing economies.

Blomström and Wolff (1994), using industry-level and cross-section 1970 Mexican data, find that higher foreign shares in an industry led to higher rates of productivity growth in locally-owned firms over the next five years. Sjöholm (1999) likewise finds positive effects of FDI on locally-owned establishments in Indonesia during the 1980-1991 period. Borensztein, De Gregorio, and Lee (1998),

using FDI flows from industrialized countries to 69 developing countries during 1970-1979 and 1980-1989, conclude that FDI contributes to growth only when the host country has a minimum threshold stock of human capital. Xu (2000), using data from US multinational enterprises (MNEs) in 40 countries from 1960 to 1994, finds that technology transfer provided by US MNEs contributed to the productivity growth in developed countries, but not in less developed countries. According to the study, a country needs to reach a minimum human capital threshold level in order to benefit from the technology transfer of US MNEs.

On the other hand, Blomström, Lipsey, and Zejan (1994), using data from 78 developing countries from 1960 through 1985, do not find any evidence that an educated workforce is critical; they argue that FDI has a positive effect on growth when the country reaches the higher-income level. Hanson (2001) argues that positive externalities by MNCs are less likely when there is a strong competition for scarce skilled labor between MNCs and domestic firms.

Balasubramanyam, Salisu, and Sapsford (1996) find significant positive association between FDI and economic growth and further suggest that the positive link is more holistic in export promotion policy vis-à-vis import substitution policy of a country. They stress that the effects of FDI on economic growth is more attractive if a host country is characterized under openness rather under trade restrictions.

Durham (2004) similarly concludes that FDI contributes to economic growth only when a sufficient absorptive capability of the advanced technologies is available. Using data on 80 countries from 1979 through 1998, he finds that FDI and equity foreign portfolio investment (EFPI) have no direct positive effect on growth, but the effects of FDI and EFPI are contingent on the absorptive capacity of host countries, particularly its stage of financial and institutional development. Prasad, Rajan, and Subramanian (2007) discover that in countries with less developed financial systems, FDI does not contribute to the growth of financially dependent industries. Alfaro, Chanda, Kalemli-Ozcan, and Sayek (2004), using data from a sample of 49 to 71 countries covering the periods 1975-1995 and 1980-1995, examine the various links among FDI, financial markets, and economic growth, and find that FDI alone plays an ambiguous role in contributing to economic growth. They argue that countries with well-developed financial markets gain significantly from FDI. Alfaro, Chanda, Kalemli-Ozcan, and Sayek (2010) also find ambiguous evidence of the effect of FDI on host countries. Using cross-country data between 2000 and 2003, their simulation results indicate that an increase in the share of FDI leads to higher additional growth in financially developed economies relative to financially underdeveloped economies. This

study supports earlier studies that emphasized the role of host-country financial markets in enabling FDI to promote growth through backward linkages.

Haddad and Harrison (1993), using panel data on Moroccan firms from 1985 through 1989, reject the hypothesis that foreign presence accelerated productivity growth in domestic firms. Aitken and Harrison (1999), using panel data on Venezuelan plants during 1976-1989, find that foreign equity participation has positive effect on plant productivity, but only for small enterprises. However, in testing for spillovers from joint ventures to plants with no foreign investment, they find that foreign investment has a negative effect on the productivity of domestically owned plants.

Javorcik (2002) employed panel data for Lithuanian firms from 1996 to 2000 to find evidence of positive externalities from multinationals to local firms in upstream industries (vertical externalities). She finds some evidence of positive vertical externalities, but she finds no evidence of positive externalities from multinationals to local firms within the same industry (no horizontal externalities). Blalock and Gertler (2003), using data from Indonesian manufacturing establishments from 1988 to 1996, likewise find strong evidence for positive vertical externalities or backward spillovers.

Macroeconomic studies (typically using aggregate FDI flows for a broad cross-section of countries) generally find a positive effect of FDI on economic growth. Earlier studies such as Blomström, Lipsey, and Zejan (1994) conclude that FDI Granger-causes economic growth, while Kholdy (1995) finds no such relationship.

Lamine and Yang (2010) use the Granger Causality Test to determine the causality relation between FDI and economic growth in the Republic of Guinea from 1985 to 2008. They observe evidence of the existence of causality from economic growth leading to FDI, and not vice versa.

Alfaro and Rodriguez-Clare (2004) use plant-level data from Brazil (1997-2000), Chile (1987-1999), Mexico (1993-2000) and Venezuela (1995-2000) and emphasize the role of backward linkages to examine productivity externalities arising from multinationals to domestic firms in the host country. They developed an alternative indicator of linkages between multinational corporations and domestic firms. The indicator chosen called the linkage coefficient is the value of inputs bought domestically per unit of labor hired by the firm. Their result shows that the linkage coefficient for foreign firms is lower than for local firms in Mexico, whereas it is higher for foreign firms than for local firms in Brazil, Chile, and Venezuela. This study's results contradict the dominant findings of previous empirical studies: that firms producing similar goods as multinationals are less

likely to benefit from productivity externalities than firms in upstream industries.

Girma, Greenway, and Wakelin (2001), using 2,342 domestic firms and 1,408 foreign firms in UK manufacturing for the period 1991-1996 conclude that foreign firms have higher productivity than domestic firms, and also pay higher wages. They conclude that “robust empirical support for positive spillovers is at best mixed” (page 171). Javorcik (2004), using an unbalanced panel data covering the period 1960-2000 of Lithuanian firms whose sample size varies between 1,918 and 2,711 firms in a given year, produces evidence of positive vertical externalities: foreign affiliates have spillovers effects on their local suppliers in upstream sectors, but only domestic and foreign joint ventures, but not with fully-owned foreign investments. Javorcik and Spatareanu (2011), using firm-level and unbalanced panel data of 13,389 Romanian firms and 3,421 foreign affiliates for years 1998-2003, produce results that show that Romanian firms in sectors whose products are expensive to transport benefit more from downstream presence of American affiliates than Romanian firms in sectors with low shipping costs. No pattern was observed for European affiliates.

Alfaro and Charlton (2013) distinguish different qualities of FDI to re-examine the relationship between FDI and growth using industry-level data from 29 countries between 1985 and 2000 and employing a two-stage least squares methodology to control for measurement error and endogeneity. Most of the previous macro empirical work analyzing the effects of FDI on economic growth failed to control for the sector in which FDI is involved. The explanation for the ambiguity of the empirical evidence on the relationship between FDI and economic growth is that the growth effects of FDI may vary across industries. When Alfaro and Charlton (2013) control for industry characteristics and time effects, an increase in FDI flows is associated with an increase in growth over the different industries' sample means.

The conclusions that emerge from the empirical literature are: (1) the empirical literature does not address the mechanisms behind the horizontal and vertical FDI externalities; (2) the prevailing notion in the literature is based on linkage measures that are not properly derived from theory; (3) the implication of a positive horizontal externality generated by some studies remains a puzzle because the dominant empirical finding of negative horizontal externality might be due to methodological issues regarding estimation techniques and measurement of inputs, outputs, and productivity. Many studies focus on the industry rather than on the firm, and most studies use cross-section data when panel data are appropriately required; (4) the relation between FDI and growth is stronger for industries with higher skill requirements and for industries more

reliant on external capital; (5) the benefits of FDI are stronger in industries to which governments give special priority; (6) that there is enormous heterogeneity in the effects of FDI, with sources possibly coming from differences in human capital, access to credit, industry targeting by governments, the mode of entry, the degree of competition, and citizenship of the foreign investor; and (7) the results suggest that the beneficial effects of FDI on growth come through higher efficiency rather than simply from higher capital accumulation (Borensztein, De Gregorio, and Lee, 1998; Alfaro and Rodriguez-Clare, 2004; Gorg and Greenaway, 2004; and Alfaro and Charlton, 2013).

Bridging the Perception Gap

Clearly, there is a significant gap between the consensus among practitioners and the empirical literature regarding the importance of positive externalities, a seeming disconnect that this section will further probe.

In the Philippine setting, Aldaba (1994) has documented a negative relationship between exports and FDI, supposedly due to the investment decision made by MNCs to set up local production facilities in highly-protected industries where the country has no comparative advantage.

Is less investment better than more investment to survive the global turmoil in the financial markets then? The following pronouncements were made during the recent volatility in China's financial markets:

Relatively low levels of foreign investment in [Chinese] bonds and stocks are shielding the Philippines from an intensifying selloff, while a comparative lack of raw materials means it's less vulnerable than Indonesia or Malaysia to sliding commodities prices.²

Finance Secretary Cesar Purisima says that among the ASEAN, China's economic slowdown would have the least impact on the Philippines due to the following factors: China's share in Philippines' total trade with the world is just 12%, the country's growth drivers such as remittances and business process outsourcing (BPO) earnings also have minimal links with China's economy.³

After the 1997 Asian economic crisis, an ex-post assessment was made:

Why was the Philippines able to come through the 1997 Asian economic crisis? The Philippines suffered only a mild recession in 1997-98 for two main reasons. First, it did not receive the exceptionally large, private short-term capital flows that went into neighboring high growth economies. Second, the Philippine financial sector was in a better shape than was the case in neighboring countries.⁴

However, the dominant advocacy narrative still clamors for more foreign investments to supplement our low domestic savings. The most consistent advocate of this paradigm is the Joint Foreign Chambers of Commerce (JFCs)⁵ which recently stated:

*The challenge to increase FDI in the second half of the year and thereafter to even higher levels is important for high, sustained, and inclusive growth.*⁶

Another complementary narrative is how restrictions on foreign ownership enshrined in the 1987 Philippine Constitution supposedly prevent the country from being at par with global standards in terms of being a competitive investment destination. With several models attesting to its veracity, it is hard to go against this conventional wisdom.

A World Economic Forum (WEF) study cited the Philippines as the “most improved country overall”. However, the study also showed that despite some improvement, the Philippines still lags behind ASEAN neighbors Singapore, Malaysia, Indonesia and Thailand in competing for Foreign Direct Investments (FDI), which is crucial to job creation and sustainability

Based on official data from the Bangko Sentral ng Pilipinas, the Philippines attracted over USD 6.2 billion in net foreign investment in 2014. While a vast improvement from just a few years ago, these figures are dwarfed by the FDI attracted by Singapore (USD 67.4B), Indonesia (USD 25.6B), Thailand (USD 11.8B), and Malaysia (USD 10.4B), Vietnam (USD 8.9B) in the same year. While the FDI Regulatory Restrictiveness Index (FDI Index) of the Organization for Economic Co-operation and Development (OECD), shows that Singapore, which attracted the most FDI in the region, was also the most open when it came to FDI regulatory restrictiveness, the Philippines was shown to have the most closed policies among all economies included in the study. Further, countries like Vietnam, which according to the World Bank attracted USD 8.9 billion in FDI in 2013, is moving to relax its foreign ownership rules, recently allowing foreigners to buy residential real estate, which is expected to pave the way for a fresh wave of foreign investment to enter the country’s property market.

But let us compare the FDI inflows (see Table 10) and growth rates of real GDP (see Table 11) among the soon-to-be integrated economies of the ASEAN region during the 2009-2014 period. While Cambodia, Laos, Myanmar, and Philippines have the lowest FDI flows in the ASEAN community, they are the fastest growing economies in the region. This implies that the growth effect per dollar of FDI inflow is greater in Cambodia, Laos, Myanmar, and the Philippines. While more FDI is desirable compared to less FDI, it does not automatically follow that countries with more FDI inflows grow faster.

Table 10: FDI Inflows Among ASEAN: 2009-2014
(In U.S. Dollars)

Country	2009	2010	2011	2012	2013	2014
Brunei Darussalam	370M	481M	691M	865M	776M	568M
Cambodia	928M	1.34B	1.37B	1.84B	1.87B	1.73B
Indonesia	4.88B	13.77B	19.24B	19.14B	18.82B	22.58B
Lao PDR	190M	279M	301M	294M	427M	721M
Malaysia	1.45B	9.06B	12.2B	9.24B	12.12B	10.8B
Myanmar	27M	6.67B	1.12B	497M	584M	946M
Philippines	1.96B	1.3B	1.85B	2.03B	3.74B	6.2B
Singapore	23.82B	55.07B	48.0B	56.66B	64.79B	67.52B
Thailand	4.85B	9.15B	1.19B	9.17B	14.02B	12.57B
Vietnam	7.6B	8.0B	7.52B	8.37B	8.9B	9.2B

Source: UNCTAD, World Investment Report 2015

Table 11: Growth Rate of GDP in the ASEAN: 2009-2014
(Percent Per Year)

Country	2009	2010	2011	2012	2013	2014
Brunei Darussalam	-1.8	2.6	3.4	0.9	1.8	-1.2
Cambodia	0.1	6.0	7.1	7.3	7.5	7.0
Indonesia	4.6	6.2	6.5	6.0	5.6	5.0
Lao PDR	7.5	8.1	8.0	7.9	8.0	7.4
Malaysia	-1.5	7.4	5.1	5.5	4.7	6.0
Myanmar	10.6	9.6	5.6	7.6	7.5	7.7
Philippines	1.1	7.6	3.7	6.7	7.1	6.1
Singapore	-0.8	14.8	6.1	3.4	4.4	2.9
Thailand	-0.9	7.4	0.6	7.3	2.8	0.9
Vietnam	5.4	6.4	6.2	5.2	5.4	6.0

Source: ADB, Key Indicators for Asia and the Pacific 2014.
ADB, Asian Development Outlook 2015.

Table 12: China's Growth Rate of GDP and FDI Inflows: 2009-2014

	2009	2010	2011	2012	2013	2014
GDP Growth Rate (%)	9.2	10.4	9.3	7.7	7.7	7.3
FDI Inflows (US\$)	95B	114.73B	123.98B	121.08B	123.91B	128.5B

Source: ADB, Key Indicators for Asia and the Pacific 2014
UNCTAD, World Investment Report 2015

The chicken-and-egg character of FDI and growth therefore remains unsettled. Table 12 shows a comparison between China's growth and its FDI inflows for the 2009–2014 period.

Conventional wisdom tells us that short-term volatile capital flows are less desirable than long-term FDI flows. However, even long-term FDI flows do not guarantee the creation of a globally competitive economy. Quantitative flows are inappropriate if they do not significantly increase employment, enhance skills, and boost the competitiveness of local enterprises, particularly the small and medium enterprises (SMEs).

The effectiveness of FDI thus depends on a country's ability to enhance its absorptive capacity through human resource development, infrastructure support, capital market development, and institutional and innovative capacity building.

On Exports and Economic Growth

There are many studies on the export-led growth hypothesis, or the positive link between export expansion and long-run economic growth. However, much of the findings are often mixed, if not conflicting. Earlier studies using cross-country data were criticized for relying on statistically significant positive correlations between exports and growth without trying to find out which caused what. Succeeding studies addressed this criticism by using time-series data from individual countries and employing Granger-type causality tests to investigate the causal relationship between exports and growth. However, this empirical approach still produced mixed results.

The inconclusiveness of the results had been attributed to the following: (1) specification bias due to the sensitivity of the model used to omitted variables; (2) exports and GDP are endogenous because the former is a component of the latter; and (3) earlier studies used aggregate exports even if there is evidence that certain export categories positively affect growth (Giles and Williams, 2000; Awokuse, 2003; Abu-Qarn and Abu-Bader, 2004; and Herzer, Nowak-Lehmann, and Siliverstovs, 2006).

On the whole, exports can increase productivity by promoting specialization in sectors in which a country has comparative advantage. This allows the country to take advantage of larger economies of scale, while benefiting from dynamic spillover effects on the rest of the economy. Export expansion may also indirectly affect growth by providing the foreign exchange that allows for increasing levels

of capital goods imports (Herzer, Nowak-Lehmann, and Siliverstovs, 2006). Another study found that export is an important determinant of the sustainability of growth, and firms actually become more productive and competitive once they start exporting (Brunner, 2015). Appendix A describes the various free trade agreements (FTAs) entered into by the Philippines with several countries.

On the need to disaggregate different categories of exports, Herzer, Nowak-Lehmann and Siliverstovs (2006) find that primary-product exports have statistically negative impact, whereas manufactured-product exports have statistically positive impact on GDP.

Policies that are focused on achieving low tariffs are rarely sufficient to prompt dynamic export drives or to overcome obstacles in other areas, too (World Bank, 2013).

For the East Asian economies, like South Korea, their successful export-led growth experience saw the government assisting in the marketing and, in coordination with companies, establishing detailed annual export targets broken down by product, market, and domestic exporter. More than logistics, this highlighted critical government support to exports (Westphal, 1978; 1990).

This complements the findings by Alfaro and Charlton (2013) that countries target industries for investment promotion because they believe them to be especially beneficial.

China's export-promotion experience achieved global integration by dismantling quantitative restrictions on imports, reducing import tariffs and their dispersion, making the currency convertible for current account transactions, eliminating bureaucratic red tape and other impediments to FDI, improving customs procedures, and establishing rule of law. China's export growth was not achieved through trade openness and free market forces alone. The effect of high export production tariffs was neutralized by export investment incentives such as duty drawbacks, and foreign investors were required to form joint ventures with local enterprises, transfer technology to local partners, and source their inputs locally. As a result of government policies, domestic capabilities in consumer electronics and other advanced areas had developed, and China's export basket is more sophisticated than what would be expected from a country of its income level. China's rapid growth is not simply attributed to the volume of exports or the ratio of exports to GDP, but to the quality of its exports as well (Rodrik, 2006). It grows faster because it specializes in the types of goods that rich countries export (Hausmann, Hwang, and Rodrik, 2006).

The Philippine export experience showed a successful shift from traditional resource-based exports (copra, sugar, bananas, logs, coconut, abaca, copper)

which used to dominate Philippine exports to non-traditional manufactured exports (electronics, garments, handicrafts, furniture & fixtures) in the 1980s (Patalinghug, 1994). However, the Philippines' main manufactured exports (electronics and garments) have weak inter-industry linkages because products are made from raw materials imported from abroad and are produced in export processing zones and bonded warehouses that have no linkages with the domestic economy (Aldaba, 1994; Austria, 2002). In addition, the Philippines' participation in the global production network in the electronics industry has been limited to the labor-intensive low-skill assembly and testing segment of the production chain. This leads to exports that are highly dependent for imported inputs with minimal value-added contribution (Austria, 2009). Philippine export performance has been uneven and is concentrated in a few large firms. Export transaction costs are high and affect SMEs the most (World Bank, 2015).

Table 13 shows the value of merchandise exports among the ASEAN member countries from 2008 to 2013. Total ASEAN merchandise exports increased from USD 982B in 2008 to USD 1.3 trillion in 2013. Singapore is the top exporter among the ASEAN and Laos is at the bottom. Philippines' exports substantially lagged behind those of Singapore, Thailand, Malaysia, Indonesia, and Vietnam. In 2013, Singapore's exports are more than seven times that of the Philippines; and Vietnam's exports are more than twice than that of the Philippines. In 1990 China's total exports was only USD 62B compared to total ASEAN's exports of USD 144B. China's exports overtook that of total ASEAN by 2005 (USD 762B versus USD 654B); in 2008, China's exports were 1.5 times that of total ASEAN; and 1.74 times that of total ASEAN in 2013.

Table 13: Merchandise Exports in ASEAN: 2008-2013
(In Million Dollars)

Country	2008	2009	2010	2011	2012	2013
Brunei Darussalam	10,543	7,174	8,887	12,464	12,980	11,432
Cambodia	3,493	3,148	3,939	5,035	5,633	6,530
Indonesia	137,020	116,510	157,779	203,497	190,032	182,552
Lao PDR	1,092	1,053	1,746	2,190	2,271	2,264
Malaysia	198,755	156,765	198,325	228,059	227,334	228,447
Myanmar	6,779	7,587	8,861	9,136	8,977	11,204
Philippines	49,078	38,436	51,498	48,305	52,100	56,698
Singapore	336,968	268,900	351,182	409,246	408,368	410,286
Thailand	175,647	151,509	192,937	219,994	227,857	224,908
Vietnam	62,685	57,096	72,237	96,906	114,529	132,135

Source: ADB, *Key Indicators for Asia and the Pacific 2014*

Table 14 shows the growth rates in merchandise exports among ASEAN member countries from 2008 to 2013. Only Indonesia and Myanmar did not experience a negative growth in exports during the height of the global economic crisis in 2008-2009. The Philippines experienced the highest decline in exports during this period. China likewise experienced a 16% decline in exports during this period, then recovered the following year with a 31.3% growth. By 2013, China's export growth had tapered down to single-digit growth at 7.8%.

*Table 14: Growth Rates in Merchandise Exports in ASEAN: 2008-2013
(In Percent)*

Country	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Brunei Darussalam	37.5	-32.0	23.9	40.2	4.1	-11.9
Cambodia	7.6	-9.9	25.1	27.8	11.9	15.9
Indonesia	20.1	15.0	35.4	29.0	-6.6	-3.9
Lao PDR	18.3	-3.6	65.9	25.4	3.7	-0.3
Malaysia	13.1	-21.1	26.5	15.0	-0.3	0.5
Myanmar	5.9	11.9	16.8	3.1	-1.7	24.1
Philippines	-2.8	-21.7	34.0	-6.2	7.9	8.8
Singapore	12.7	-20.2	30.6	16.5	-0.2	0.5
Thailand	14.4	-13.7	27.3	14.0	3.6	-1.3
Vietnam	29.1	-8.9	26.5	34.2	18.2	15.4

Source: ADB, *Key Indicators for Asia and the Pacific 2014*

Table 15 compares export and import data for the Philippines, ASEAN, and the world for the years 2010 and 2011. Looking at the data, the Philippines has a relatively small share of ASEAN trade compared to its neighbors. The Philippines ranked sixth in trade volume (exports plus imports) in 2010 and 2011 behind Singapore, Thailand, Malaysia, Indonesia, and Vietnam in that order. This means that there is still room for improvement when it comes to attracting MNCs to set up operations in this country and making the country a more active part of the global value chain.

*Table 15: Total Exports and Imports of the Philippines, ASEAN, and the World
(In Billion Dollars)*

	Total Exports		Total Imports	
	2010	2011	2010	2011
Philippines	51.5	48.0	54.9	60.1
ASEAN	1,070.9	1,242.3	974.8	1,146.3
World	15,129.8	18,070.2	15,251.5	18,204.8

Source: IMF *International Financial Statistics*, www.asean.org

*Table 16: Total Philippine Exports and Imports to Selected Countries/Regions
(In Thousand Dollars)*

	Total Exports		Total Imports	
	2010	2011	2010	2011
ASEAN	1,986,081	15,492,371	8,693,733	14,337,204
China	5,724,467	4,627,559	6,237,326	6,085,075
Japan	7,841,291	6,744,364	8,886,140	6,516,380
Korea	2,228,180	3,832,938	2,237,228	4,419,530
India	410,280	541,425	388,301	666,954
USA	7,559,105	5,886,656	7,101,909	6,536,264
Europe	6,602,042	4,592,830	5,885,161	6,142,399
Australia	349,626	839,043	393,890	1,071,056
New Zealand	32,701	408,818	44,858	524,229

Source: Philippine Statistics Authority

Table 16 shows Philippine exports and imports to some of its top trading partners. Trade with ASEAN countries makes up the biggest chunk of trade volume in 2010 and 2011. Improved supply chain performance may result in increased trade and integration with our ASEAN neighbors in such industries as electronics and automobile parts. If we include other countries such as China, Japan, Korea, Australia, New Zealand, and the US, we can see that these nations form the biggest trading partner for the Philippines. Improving our competitiveness would mean increased investment and trade with other economies. Moving higher up on the value chain and playing to our strengths would enable the Philippines to serve as a complement to the capabilities of our neighbors.

Conclusions and Recommendations

The mainstream paradigm in economics is that more open investment and trade regimes have helped countries achieve economic growth. The review of the empirical literature on the role of FDI on economic growth does not unconditionally or overwhelmingly affirm this mainstream paradigm. At best, what can be imputed is that FDI contributes to economic growth provided a sufficient absorptive capability to utilize advanced technologies and management processes exists in the host economy. So what matters is the quality, not the quantity, of FDI flows. And spillover effects of FDI on local firms are more likely to apply to firms in upstream industries than to local firms producing similar goods as MNCs. Although more investment is normally preferred to less investment, quality investment that would significantly increase employment, enhance skills,

and boost the competitiveness of local enterprises (micro, small, medium, and large) is even more preferable. The Philippines failed to attract large inflows of FDI relative to its ASEAN neighbors, but nevertheless grew faster compared to its ASEAN counterparts during the last five years.

In order to improve the effectiveness of FDI flows, the Philippines needs to enhance its absorptive capability through investments in human capital and infrastructure, as well as developing capital markets and building institutional and innovative capacity.

The export-led hypothesis postulates that export expansion is crucial in promoting economic growth. The empirical literature produces mixed and confusing results. The dominant conclusion from various studies is that exports can increase productivity by promoting specialization in sectors in which a country has comparative advantage, taking advantage of economies of scale in global markets, and generating spillover effects to the rest of the economy.

The Philippine export experience succeeded in shifting from traditional resource-based exports (coconut, sugar, copper, logs, abaca) to non-traditional manufactured exports (electronics, garments, auto parts, handicrafts). However, the main manufactured exports are concentrated in electronics and garments and their production has minimal value-added contribution to the rest of the economy because they are isolated in export processing zones and are using imported raw materials.

Successful export promotion strategy is aided by government industrial policy. In order for the Philippines to build domestic capabilities in priority sectors under the Philippine New Industrial Policy, such as automotive, electronics, machinery, garments, and food industry, a targeted set of interventions is needed such as human resource development, technology upgrading, information dissemination, development of local supplier industries, and infrastructure development for greater connectivity with global production networks.

Indirect Policy Implications:

- (1) The lifting of restrictions in the 1987 Philippine Constitution and other barriers must be part of the priority programs of the next administration. FDI must be attracted to industries that generate employment, promote exports, and increase knowledge spillovers.

The realization of the ASEAN Economic Community (AEC) by the end of 2015 will create both opportunities and challenges for the Philippines

but if the country is to take full advantage of ASEAN Integration the country must introduce essential reforms including the liberalization of key sectors of the economy. Amending the economic provisions of the 1987 Philippine Constitution is a necessary step if we are to usher in an open and more competitive Philippine economy, directly benefiting poor Filipinos.

(2) Exports are important in promoting economic growth. Then a dynamic export-promotion policy must be instituted by the next administration. This strategy can be instituted by adopting a menu of policy choices that combine productivity-enhancing measures with marketing-oriented measures.

The former is composed of the following: (a) finalize and complete the existing New Industrial Policy which identifies the industries and sectors where the Philippines has comparative advantage; (b) identify human resource development programs focused on the identified industries and sectors; (c) embark on trade facilitation measures such as passing the Customs Modernization and Tariffs Act which will motivate the Bureau of Customs to improve customs procedures and to finally implement the single window system combined with a new *de minimis* rule; and (d) pursue trade-related infrastructure projects such as port and airport relocation projects with road and railway connectivity to address the existing port, and airport congestion.

The latter is composed of the following: (a) refine the existing incentive arrangement by passing the Investment Incentives Rationalization Act which gives National Economic and Development Authority the authority to do a cost-benefit analysis of the impact of the tax incentives to be granted to a registered business entity, and also approving the Amendments to Foreign Investment (Negative List) Act; (b) coordinate the marketing and technology acquisition efforts with key players from the private sector; and (c) establish a unified investment promotion structure which makes it a coherent and effective organization.

¹ These 15 identified industries are: automotive, motorcycle, shipbuilding, chemicals and allied industries, electronics, electrical appliances, garment, textiles, copper, food and agribusiness, pulp and paper, rubber, furniture, jewelry, and iron and steel.

² Ditas Lopez, "Philippines Becomes Regional Star as Gloom Descends Around Asia," Bloomberg News, August 27, 2015.

³ Editorial entitled "Tempered Growth," Philippine Daily Inquirer, September 1, 2015.

⁴ Balisacan and Hill (2003), p. 36.

⁵ JFC is composed of business chambers from the US, Canada, Australia, New Zealand, Japan, Korea, EU, and the association of MNCs with headquarters in the country.

⁶ "Joint Foreign Chambers Confident 2015 FDI Will Match \$6.2B of 2014," Manila Bulletin, October 8, 2015, p. B-13.

Appendix A

The Philippines' Involvement in Free Trade Agreements

The Philippines as a member of the Association of Southeast Asian Nations (ASEAN) will have access to 600-million consumer base when the ASEAN Economic Community (AEC) reaches full realization by December 31, 2015. In addition, ASEAN has established bilateral free trade agreements (FTAs) with six partners: ASEAN-Korea FTA (2007), ASEAN-Japan FTA (2008), ASEAN-Australia and New Zealand FTA (2009), ASEAN-China FTA (2010), and ASEAN-India FTA (2010), with an aggregate market size of 3.45 billion people.

In addition, the Philippines entered a bilateral free trade agreement with Japan in 2006 called Philippines-Japan Economic Partnership Agreement or PJEPA. An initial evaluation showed that Philippines' exports to Japan steadily rose from 2009 to 2011, but Japan's exports to the Philippines fell in 2011 due to the effect of the Tsunami (Medalla and Ledda, 2013). The Philippines is currently negotiating an European Union-Philippines FTA.

The twelve-nation Trans-Pacific Partnership (TPP) initiated by the United States was agreed among its members last October 5, 2015. TPP is a trade and investment agreement for countries in the Asia Pacific region that eliminates tariffs and non-tariff barriers, harmonizes trade regulations, eliminates investment barriers, and sets common standards on labor markets and environmental protection. TPP is composed of Brunei, Chile, New Zealand, Singapore, United States, Japan, Canada, Mexico, Peru, Australia, Malaysia, and Vietnam. The Philippines has signified interest in joining TPP, but the process of evaluating the impact of joining TPP is still on-going. The Philippines did not belong to the original 12 TPP members because its constitutional foreign ownership restrictions in public utilities, advertising, mass media, and education were deemed as barriers for membership.

Initial estimates are made on the potential economic effects on the Philippines of the TPP. Clarete (2014) using a computable general equilibrium (CGE) model for the Philippines finds that the Philippines will benefit from joining the TPP through higher exports, real GDP, and household incomes.

Manzano and Martin (2014) using trade indicator approach analyze the effect of TPP on US-Philippines trade in goods and conclude that being a non-TPP member could pose possible trade diversion and preference erosion at the expense of the Philippines. Trade re-orientation can affect 9.5% of total trade basket of the

Philippines (now currently enjoying Generalized System of Preferences benefits) and trade diversion can likewise impact on 47.8% of Philippine exports.

Finally, Cororaton and Orden (2014) using a global CGE model find trade creation within the TPP and trade diversion from non-TPP. If the Philippines remains a non-TPP member, it will incur a decline in its exports which will result to lower output and welfare loss. The welfare loss is estimated at 0.2% of GDP in 2024. If the Philippines joins the TPP, it will absorb a sustained welfare gain of 1.2% of GDP in 2024. The welfare gain is higher if TPP participation increases FDI inflows to the Philippines.

Thus, the initial assessment favors the decision for the Philippines to join the TPP.

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Poverty, Inequality, and Inclusive Growth

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In the past five years, the Philippines has experienced robust economic growth, marked by low and stable inflation, a sound financial system, a sustainable fiscal position, and an improved international credit rating. Despite such remarkable macro achievements, however, regional disparities in income, education, health, and infrastructure persist, if not increase, and the country's poverty-reduction performance remains to be the slowest in the region.

In its chapter on "A Roadmap to Inclusive Growth," the Philippine Development Plan 2011-2016 (PDP) gives emphasis to this "unfinished business":

Still, a more serious criticism is that the benefits of growth have not been broadly shared among the population. Of the country's 17 regions, three account for close to two-thirds of GDP. Poverty incidence has declined only marginally between 2009 and 2012, with about a quarter of the population considered income poor. Employment has not grown fast enough and nearly a fifth of the employed want additional work. And agrarian reform, still the country's boldest attempt at asset reform, remains to be completed. Thus, when viewed against the promise of inclusive growth, the achievements do not seem to amount to much (NEDA, 2014, p. 3).

The pursuit of inclusive growth, as stressed in the PDP, remains to be a vital element of the country's development strategy. What is inclusive growth? Ali and Zhuang (2007, p. 10) define it as:

Inclusive growth means growth with equal opportunities. Inclusive growth therefore focuses on both creating opportunities and making the opportunities

accessible to all. Growth is inclusive when it allows all members of a society to participate in and contribute to the growth process on an equal basis regardless of their individual circumstances.

In the case of the Philippines, the benefits of growth have not been broadly shared. There is a risk to social and economic progress if extreme poverty is not addressed. Efforts to achieve inclusive growth require reinforcing measures, such as promoting efficient and sustainable economic growth; ensuring a level political playing field; strengthening capacities; investing in education, health, and infrastructure; and providing for social safety nets (Ali and Zhuang, 2007; Rauniyar and Kanbur, 2009). Furthermore, Ali and Zhuang (2007, p. 11) argue that “the impact of growth on poverty reduction is higher when the initial level of inequality is lower or inequality declines over time.” The critical significance of inclusive growth is to improve access of the poor to markets, increase productivity, and create further opportunities for employment.¹ An inclusive growth strategy encompasses economic, social, environmental, and institutional dimensions, not simply concentrated on the poverty reduction strategy. Furthermore, it extends the development agenda.

This paper revisits the relationship between poverty, inequality, and inclusive growth. It attempts to provide a broader perspective of the findings in the empirical literature and tries to link its relevance to the Philippine situation.

The paper is divided into the following sections: (a) link between poverty and economic growth; (b) inequality-poverty-growth nexus; (c) graduation of households from poverty; (d) relationship between macroeconomic stability and inclusive growth; and (e) conclusions and recommendation.

Growth and Poverty

The hypothesis that economic growth will reduce poverty has been widely discussed and debated, but studies on the subject have revealed mixed results. Ravallion (1995), using data from 36 countries and using a poverty line of \$1 a day at purchasing power parity (PPP), finds a strong negative relationship between the headcount index of poverty and mean consumption, with an implied growth elasticity of poverty of -2.4. However, Ravallion and Datt (1999) using state-level data for India spanning 35 years, find that there is a considerable variance in the poverty-reducing impact of a given rate of growth, and obtain an elasticity estimate ranging from 1 to 5 (which measures how much Gross Domestic Product [GDP] growth translates into growth in average household incomes). Using

household time series data for India between 1951 and 1991, Ravallion and Datt (1996) show that poverty measures (income or consumption) have responded far more to rural economic growth than urban economic growth. They also find that primary and tertiary sector growth had greater impact on poverty than secondary sector growth. In another study, Ravallion and Datt (1999) also find that non-farm economic growth was less effective in reducing poverty in states or regions with poor initial conditions in terms of rural development and human resources (e.g. low farm productivity, low rural living standards relative to urban areas, poor basic education, etc.). Their study uses 20 household surveys for India's 15 major states, spanning 1960-1994. They likewise find that the growth elasticities of poverty did not differ significantly across states, but urban and rural output elasticities of poverty varied appreciably.

Dollar and Kraay (2002), using a sample of 92 countries spanning four decades find that average incomes of the poorest quintile (the bottom 20% of the income distribution) rise proportionately with average incomes,² while Roemer and Gugerty (1997) using data from 26 developing countries find that the relationship is less proportional when the poor is defined as the bottom 20% of the income distribution, and proportional when the poor is defined as the bottom 40% of the income distribution. Nevertheless, both studies suggest that economic growth benefit the poorest in society as much as anyone else. Defining the poor as the lowest quintile of the income distribution, using a sample of 85 countries spanning five decades, and following the procedures employed by Dollar and Kraay (2002), Ghura, Leite, and Tsangarides (2002) find that the effect of an increase in average income on the income of the poor is positive but not proportional. They estimate a growth elasticity of 0.94. This result supports the findings of Roemer and Gugerty (1997), only differing in magnitude from the findings of Dollar and Kraay (2002).

The interesting finding of Ghura, Leite, and Tsangarides (2002) is that four policy variables (low inflation, a high level of schooling, a high level of development, and small ratio of government consumption to GDP) raise the income of the poor directly, as well as through the growth channel. The direct and indirect effects are mutually reinforcing and they assert that there are no trade-offs between growth promotion and poverty alleviation. In contrast, the findings of Dollar and Kraay (2002) imply that only economic growth can directly affect the average income of the poor.

In the Philippines, Balisacan and Fuwa (2001), using provincial data between 1988 and 1997, find a strong relationship between the rate of income growth and the rate of poverty reduction. They estimated a growth elasticity of poverty reduction of between -1.6 to -1.7, below the Ravallion estimated elasticity of

-2.5 on a sample of 47 developing countries in the 1980s and 1990s. Reyes and Tabuga (2011), using national income accounts (NIA) and Family Income and Expenditures Survey (FIES) data, obtained an elasticity estimate of from -1.4 to -1.8. Using FIES and NIA data, Albert, Dumagan, and Martinez (2015) estimate a growth elasticity of poverty reduction of -0.16 for 2009 and -0.30 for 2012.³ In addition, Balisacan and Fuwa's results show that lower initial income, higher initial human capital, higher initial land inequality, and greater implementation of the comprehensive agrarian reform program tend to result in high rates of both mean income growth and poverty reduction.

Balisacan and Pernia (2001) assess the Philippine experience on the relationship between agricultural growth and rural poverty and find adverse results. For instance, during the 1960s and 1970s when agricultural growth was quite robust, rural poverty reduction was weak; but during the 1980s and 1990s when agriculture growth was slowing down, rural poverty declined. They surmise that this might have been due to the increase in the non-farm income earning opportunities in rural areas. This finding is contrary to the experience in India (Ravallion and Datt, 1996) where poverty reduction responded far more to rural economic growth than urban economic growth. Using provincial-level data based on 1985, 1988, 1991, 1994, and 1997 FIES data, Balisacan and Pernia (2002) find that the relationship between the growth in average income and the growth in the average living standards of the poor is not proportional. They estimated a growth elasticity of 0.7 in contrast to the growth elasticity of 1 estimated by Dollar and Kraay (2002) using a cross-country sample over a 40-year period. Moreover, Balisacan and Pernia (2002) argue that in addition to income, the other factors affecting poverty reduction could be attributed to infrastructure, human capital, location-specific characteristics, and institutions. Balisacan and Pernia (2003), using provincial-level data from 1985-1997 FIES, estimated a lower growth elasticity of slightly higher than 0.5, far lower than the elasticities estimated from cross-country studies of Dollar and Kraay (2002) and Ghura, Leite, and Tsangarides (2002).

Balisacan (2003), using FIES data from 1985 to 2000, found that poverty rates declined during the 1985-87 and 1994-97 periods, while it increased during the 1997-2000 period (see Table 1). He also analyzed the spatial and sectoral income disparities and its link to poverty. In 2000, Metro Manila's mean expenditure was nearly twice the national average and about three times the mean living standard for Bicol and Western Mindanao (the poorest regions at that time). On the other hand, he documented high disparity in the mean consumption between urban and rural areas. For instance, the mean consumption in urban areas was nearly

twice that of rural areas and significantly rising during the high-growth periods of 1985-88 and 1994-97. Correspondingly, all poverty indices declined during those high-growth periods in both urban and rural areas. Metro Manila had the lowest poverty incidence, while Bicol and Western Mindanao had the highest poverty rates during the 1985-2000 period (see Table 2).

Assessing Vietnam's experience, Balisacan, Pernia, and Estrada (2003), using provincial household data covering the periods 1992-1993 and 1997-1998, show that the growth process increases the incomes of the poorest 20% of the population appreciably larger than the incomes of the top 20% of the population (e.g. growth elasticity of 1.3 versus 0.5). Furthermore, the poverty measure responds far more to urban economic growth than rural economic growth, contrary to the findings of Ravallion and Datt (1996) for India. Table 3 shows that the Philippines has the lowest percentage poverty reduction per year among Asian developing countries.

*Table 1: Average Welfare, Poverty, and Inequality in
Urban and Rural Areas, 1985-2000**
(In Percent)

URBAN	1985	1988	1991	1994	1997	2000
Dimension of Poverty						
Incidence	21.7	16.0	20.1	18.6	11.9	13.2
Depth	5.9	3.8	5.7	4.4	2.6	3.0
Severity	2.3	1.4	2.3	1.5	0.9	1.0
Inequality						
Gini	0.4	0.4	0.4	0.4	0.4	0.4
Share of Richest 10%	26.9	24.5	28.0	25.7	31.1	30.7
Share of Poorest 20%	7.5	8.0	7.0	8.2	6.7	7.0
RURAL	1985	1988	1991	1994	1997	2000
Dimension of Poverty						
Incidence	53.1	45.7	48.6	45.4	36.9	41.3
Depth	17.8	14.4	15.6	13.0	9.8	11.3
Severity	8.0	5.9	6.8	5.2	3.6	4.3
Inequality						
Gini	0.4	0.4	0.4	0.4	0.4	0.4
Share of Richest 10%	23.2	23.1	23.9	23.1	24.3	24.3
Share of Poorest 20%	9.6	9.7	9.8	10.7	10.3	10.7

**Poverty and inequality estimates are based on per capita consumption expenditure adjusted for provincial cost-of-living differences. Poverty lines employed to calculate poverty indices are fixed in terms of living standards.*

Source: Balisacan (2003), Table 10.4, page 326

*Table 2: Poverty Incidence by Region, 1985-2000**
(In Percent)

Region	1985	1988	1991	1994	1997	CONTRIBUTION TO TOTAL POVERTY IN	
						2000	2000
National Capital Region	11.6	9.5	5.9	5.6	3.5	5.5	2.9
Ilocos	33.1	27.6	27.3	26.5	21.0	19.4	4.6
Cagayan Valley	44.9	39.7	42.2	39.8	29.5	29.7	4.4
Central Luzon	19.1	15.3	15.4	24.3	13.2	16.1	5.8
Southern Luzon	35.4	31.7	22.9	28.6	19.6	19.5	10.3
Bicol	67.0	60.9	62.2	50.2	45.6	53.3	14.4
Western Visayas	49.4	34.4	31.6	34.5	21.8	28.1	8.1
Central Visayas	66.5	55.2	53.2	42.8	35.2	39.4	10.2
Eastern Visayas	59.3	53.7	54.4	51.5	50.6	46.8	8.0
Western Mindanao	52.5	43.8	44.0	53.7	44.6	56.0	10.5
Northern Mindanao	52.6	41.6	54.2	37.9	29.9	30.1	6.2
Southern Mindanao	51.8	43.7	53.9	30.7	27.8	25.8	7.0
Central Mindanao	35.8	30.1	42.3	39.8	32.9	39.9	7.6

*The regional classification of provinces and cities is kept fixed to that existing in 1985

Source: Balisacan (2003), Table 10.5, page 327

Table 3: Poverty Reduction and Growth of Per Capita GDP

Country	Period	Percentage-Point Reduction Per Year	Average Growth of Per Capita GDP (%)
Bangladesh	1992-96	-1.7	2.8
Cambodia	1994-97	-1.0	2.6
China	1993-98	-2.5	10.4
India	1992-97	-1.4	3.8
Philippines	1994-97	-1.3	1.9
Indonesia	1990-96	-2.1	6.4
Thailand	1992-96	-1.0	7.2
Vietnam	1993-98	-4.1	6.8
East Asia and Pacific	1993-98	-2.0	5.6

Source: Balisacan, Pernia, and Estrada (2003), Table 1, page 1

Using data from the 1997 FIES and from 1998 and 1999 Annual Poverty Indicators Survey (APIS), Reyes (2004) found that there are considerable movements in and out of poverty during the 1997-1999 period. This coincides with the Asian financial crisis and the worst episode of the El Niño phenomenon. She also found that only half of those considered poor in 1997 are consistently poor in 1998 and 1999, and those who are non-poor in 1997 become poor in 1998, indicating the vulnerability of these households to shocks. She recommends that we identify who are the chronic and transient poor and the causes of their poverty before recommending the appropriate interventions for them.

Meanwhile, using data from 2006 FIES, 2007 and 2008 Labor Force Surveys, and 2007 and 2008 APIS, Balisacan, et al. (2010) studied the impact of the 2008 global economic crisis on Philippine poverty and found that while the Philippine economy did not slide into recession, the impact of the crisis on poverty across population groups were severe. Without the crisis, average household income would have increased by 1.8% between 2008 and 2009 and poverty would have fallen from 28.1% to 27.7% (poverty was actually at 29.7% in 2009). The decline in poverty from 2007 to 2008 was due to much higher growth rates of per capita income of the poorest 40% of the population; poverty in the rural sector declined at an annual rate of 3.7 percentage points higher than the decline in urban areas at a much slower annual rate of 1 percentage point between 2006 and 2008. This

Table 4: Distribution of the Poor and Non-Poor Population in the Philippine Urban and Rural Areas: 2003 and 2009
(In Thousand)

Poverty Status		2003			2009		
		Urban	Rural	Philippines	Urban	Rural	Philippines
Poor	Subsistence Poor	1477	7326	8803	1728	7709	9437
	Poor but not subsistence poor	2886	8108	10994	3979	9720	13699
	Total Poor	4363	15434	19797	5706	17429	23135
Non-Poor	Nearly Poor	1231	2437	3668	1492	2716	4208
	Non-Poor and not nearly Poor	33417	22491	55908	35964	24074	60037
	Total Non-Poor	34648	24928	59576	37456	26789	64245
TOTAL	39011	40361	79373	43162	44218	87380	

finding is similar to the experience in India as shown by Ravallion and Datt (1996).

Table 4 shows the urban and rural populations of the poor and non-poor in the Philippines for 2003 and 2009. Using data from 2003, 2006, and 2009 FIES, Reyes, et al., (2011) find that only 47% of the poor in 2009 refer to those who are chronically poor, being consistently poor during the three survey years, and 53% of the poor consist of people who are moving in and out of poverty (transient poor). According to the World Bank (2015), the 2013 APIS suggests that the real income of the bottom 20% grew faster than the rest of the population. This is corroborated by significant improvement in underemployment among the poor (particularly in the third income decile); however, it also points to the risk faced by the government's poverty reduction efforts due to the still stubbornly high overall underemployment rate, and the recent contraction in agricultural value-added and employment.

Table 5 shows the considerable movement in and out of poverty between 2003 and 2008. Around 12.4% are chronic poor, 42.7% move in and out of poverty, and 44.9% are never poor. For food poverty, only 3.3% are chronic food poor, while around 67.1% of the households are never food poor. The rural poor tend to reside in the rural areas, are engaged in agriculture, and tend to have larger family sizes (Reyes, et al., 2010b; Reyes, et al., 2011).

Table 5: Distribution of Households by Poverty Status, 2003-2008

Poverty Status	Percent
Income Poverty	
– Chronic poor	12.4
– Transient poor	21.3
– Previously poor	21.4
– Never poor	44.9
Food Poverty	
– Chronic food poor	3.3
– Transient food poor	12.8
– Previously food poor	16.8
– Never food poor	67.1

Source of basic data: Matched files of the 2003 and 2006 FIES, and 2004, 2007, and 2008 APIS as estimated by Reyes, et al. (2010b), Table 2, page 10. The figures above are unweighted.

Poverty estimates for 2009 show that the poor are concentrated in the rural areas at 40% of the population, compared to only 12% in urban areas; moreover, the poverty incidence in the agriculture sector is around 48%, and contributes to about two-thirds of the poor in the Philippines (Mapa, Lucagbo, and Garcia, 2012). The increase in poverty incidence in 2006 is due to the lack of increase in the real income in the agricultural sector (Reyes, et al., 2010a). Appendix A shows the number of poor in the ASEAN estimated using poverty lines adjusted for food insecurity and vulnerability.

In sum, studies on growth and poverty universally reveal that economic growth has a significant effect on poverty reduction. But the magnitude of the effect is debatable: some economists find a proportional growth-poverty link, while others show a less than proportional evidence.

The implications of these findings on policy are immense. A proportional relationship implies that economic growth and all policies and institutions that support it benefit the poorest in society (Dollar and Kraay, 2002). The less than proportional relationship implies that other factors, such as inflation, government size, educational achievement, and financial development also raise the income of the poor in addition to economic growth (Ghura, Leite, and Tsangarides, 2002; Balisacan and Pernia, 2002). Studies also find that economic growth in rural areas have a higher impact on poverty reduction compared to growth in urban areas.

Inequality, Poverty and Growth

Srinivasan (2001, p. 4) asserts that there is no “deep” link between growth, on one hand, and poverty and inequality, on the other. While much research has been done on the role of economic growth in reducing poverty, not many have focused on the impact of income distribution on poverty reduction. Atkinson (2015) has claimed that the subject of income inequality had become marginalized in economics; for much of the twentieth century, the topic had been ignored, and a glance at today’s best-selling textbooks shows that a discussion on inequality is kept separate from the central chapters on production and the macroeconomy. And Ghura, Leite and Tsangarides (2002, p. 4) sum up this state of affairs:

The current view is that (i) growth does not consistently affect inequality one way or the other, and (ii) the initial level of inequality does not appear to have a negative impact on subsequent growth.

Datt and Ravallion (1992) and Cord, Lopez, and Page (2003) claim that economic growth alone does not guarantee less poverty; income distribution

and inequality, and even starting conditions matter as well. Kuznets (1955) has postulated that the growth process will initially result in an increase in inequality, but beyond some level of mean income, inequality will begin to fall. This is known as Kuznets' Inverted U Hypothesis. Employing a bivariate regression model covering 36 developing countries in the 1980s, Ravallion (1995) finds no systematic relationship between the Gini index and the mean income. This rejection of Kuznets' Inverted U Hypothesis leads Ravallion to conclude that impacts on inequality are so diverse that no systematic bivariate relationship can be detected. Piketty (2014) has a different analysis of the Inverted U Hypothesis. Kuznets' historical series deal with U.S. over a period of thirty-five years (1913-1948). Piketty challenges Kuznets' findings by extending the spatial and temporal limits of Kuznets' pioneering work covering Britain (1870-2010), France (1870-2010), Germany (1870-2010) and U.S. (1910-2010). And Piketty concludes that, looking at a longer perspective, the process by which wealth is accumulated and distributed contains powerful forces pushing towards divergence (i.e. toward an extremely high level of inequality).

Using household survey data on poverty and inequality for about 50 developing countries in 1990s, Ravallion (2001) finds that openness is associated with higher inequality in poor countries; for roughly the lower half of countries in terms of inequality, growth tends to come with higher inequality, while for the upper half, growth tends to attenuate inequality. He concludes that this requires further research on the role of initial conditions (including distribution) and how they interact with policy change, and while good policy-making is concerned with aggregate impacts on the poor, it cannot ignore the diversity of impacts underlying the averages which can be unmasked by good micro empirical work.

Dollar and Kraay (2002) also find that macroeconomic policies (such as low inflation, moderate size of government, sound financial development, respect for the rule of law, and openness to international trade) raise average incomes with little systematic effect on the distribution of income. It also finds no correlation between growth in average income and changes in inequality. Ghura, Leite, and Tsangarides (2002) stress that income inequality is an important determinant of poverty and lower levels of inequality are found to have a direct and beneficial impact on poverty reduction. Ali and Zhuang (2007) likewise argue that the impact of growth on poverty reduction is higher when the initial level of inequality is lower.

Looking at empirical evidence in the Philippines, Balisacan and Fuwa (2001) are cautious in drawing a definitive conclusion on the possible trade-off between growth and equity. Balisacan and Pernia (2002) document that the growth

elasticity of poverty tends to increase monotonically with income quintile (from 0.544 for the poorest 20% to 1.045 for the richest 20%). They likewise find that irrigation and agrarian reform have favorable effects on the welfare of lower-income groups. Balisacan (2003) shows that inequality blunted the impact of growth on poverty. Actual poverty incidence in 2001 was 27.5%, but if there was no change in inequality, poverty incidence would have been 24.5%.

Table 6: Poverty, Inequality, and Growth Indices, 2006-2012

Year	GDP Growth Rate	Poverty Incidence	GINI	Share of Bottom 20% in National Income	Ratio of Income of Top 10% to Income of Bottom 40%
2006	4.9%	26.3%	0.495	4.48%	3.09
2009	1.1%	26.1%	0.516	4.22%	3.47
2012	6.7%	25.3%	0.506	4.45%	3.27

Source: Albert, Dumagan, and Martinez (2015); ADB, Key Indicators for Asia and the Pacific

Table 6 shows indices of poverty, inequality and growth from 2006 to 2012. It shows that poverty is at standstill over the period, but income inequality has been increasing. This pattern is documented by several studies (Albert, Dumagan, and Martinez, 2015; Reyes, 2004; and Balisacan, 2003). Reyes, et al. (2010b), using FIES and APIS data for the period 2003 to 2008, describe the extent and various household characteristics of the chronic and transient poor. Employing both descriptive and panel regression methods and using 2003 and 2006 FIES data, they analyze that the rise in poverty from 2003 to 2006 is attributable to the lack of growth in real income as well as the lack of redistributive efforts that can improve the distribution of income in favor of the poor. For economic growth to be inclusive, Balisacan, et al., (2010) have stressed that reform initiatives aimed at reducing the highly inequitable distribution of development opportunities need to receive much attention. Philippine income inequality (relatively higher compared to that in most Asian countries) has greatly dampened the impact of economic growth on poverty reduction.

Reyes and Tabuga (2011) examine the relationship between poverty, economic growth, and inequality by decomposing poverty changes at sub-national levels using national income accounts (NIA) and household survey (FIES) data from 2003 to 2009. They conclude that poverty in the Philippines is not that responsive to growth, and that the response of poverty rate at a given rate of growth is higher

when income distribution is less unequal. During a period of high economic growth, the rate of growth was absent in the poorest regions (e.g. ARMM and MIMAROPA) and also in low-poverty and highly-populated regions (e.g. CALABARZON and Central Luzon). This pattern shows a lack of broad-based and inclusive growth.

Finally, Albert, Dumagan, and Martinez (2015) analyze the trend in various statistics on poverty and income distribution, using FIES and APIS data for 2006, 2009, 2012, and 2013, to examine how disparities in area, income, labor, and education prevent the country from reducing poverty. The extremely poor account for half the poor people in rural areas and only about a third of the poor in urban areas. In 2012, the share of the poorest 20% in national income is only 4.45%, while ratio of the income of the top 10% to the bottom 40% is 3.27 (see Table 6). The poor underemployed are concentrated in the National Capital Region (NCR) and neighboring regions, while the poor unemployed are mostly single, and 60% of the poor underemployed belong to the agriculture sector. The proportion of the youth aged 15-24 with less than 4 years of schooling (which is called “education poverty rate”) moves marginally from 5.3% in 1993 to 4.9% in 2008. The males are more education poor than females, and rural areas are more education poor than urban areas. Inequalities in educational attainment are related to inequalities in accessing labor-market opportunities. Inequalities of outcomes are linked to income, gender, rural-urban, and occupational disparities. In sum, to attain inclusive growth, government policies must not only try to create new opportunities but it must likewise ensure that everyone can participate in those new opportunities.

Graduation of Households from Poverty

Inclusive growth means growth with equal opportunities, and equal access to opportunities increases potential growth. On the other hand, inequality of opportunities diminishes potential growth and makes it unsustainable. Inequalities of opportunities are mostly due to differences in individual circumstances that are beyond the control of the individual, while inequalities of outcomes are due to a combination of differences in efforts and in circumstances (Ali and Zhuang, 2007). Roemer (1998) distinguishes “inequality of outcomes” from “inequality of opportunities.”

It is thus important to distinguish between aspects of outcome inequality that can be attributed to individual circumstances (such as family background, religious affiliation, geographical location, and race) and aspects that can be attributed to

individual efforts. This is important in terms of designing redistribution policies, foremost choosing between redistributing current income or expanding the opportunity sets of the poor (Bourguignon, Ferreira, and Menendez, 2003).

However, inclusive growth is not based on a redistributive approach to addressing inequality, but on creating opportunities and ensuring that everybody has equal access to these new opportunities. The goal is not to eliminate all differences in economic outcomes, but rather to reduce inequality below its present level, which is considered excessive (Ali and Zhuang, 2007; Atkinson, 2015). A society has achieved equality of opportunity if what individuals accomplish is determined wholly by their choices and personal effort, rather than by circumstances beyond their control (Björklund, Jäntti, and Roemer, 2011). To examine the role of circumstances and effort on the distribution of long-run income, Björklund, Jäntti, and Roemer (2011) used a 35% random sample of the Swedish male population born between 1955 and 1967 sourced from Swedish administrative register data sets to measure the distribution of long-run income as well as several important background circumstances, such as parental education and income, family structure and own IQ before adulthood. Given Sweden's present set of social policies and institutions, they found that parental income and IQ levels are important circumstances for long-run income inequality, but variations in individual efforts account for the most part. Sweden has moved in the direction of increasing equality of opportunity.

However, meritocracy is still highly imperfect in less developed countries as shown by the findings of de Barros et al. (2009) for 28 Latin American and Caribbean countries where circumstances account for between 30 and 50% of inequality; in contrast to Sweden in which at least 70% of inequality is due to effort. Bourguignon, Ferreira, and Menendez (2003, 2007) measure inequality of opportunities in terms of five observed circumstances that contribute to income inequality: mother and father's education, father's occupation, race, and region of birth. These five observed circumstances are found to account for between 10 and 37% of the income inequality in Brazil, of which parental education is the most crucial.

The extremely poor have the lowest incomes, no capital or business, and limited social networks. They lack basic education, business skills, and the social networks, and are associated with cognitive or behavioral problems. Such concerns explain why graduation programs of households from poverty commonly transfer assets (such as livestock) rather than cash, and provide complementary services such as training, income support, supervision, home visits, and health services alongside assets (Blattman, et al., 2014).

Banerjee, et al. (2015) utilize the randomized control trials (RCT) in six countries (Ethiopia, Ghana, Honduras, India, Pakistan, and Peru) using a total of 10,495 participants to determine whether a multifaceted graduation program can help the extreme poor establish sustainable self-employment activities and generate lasting improvements in their well-being. The focus of the program is the poorest members of the village and to combine six different activities which are designed to complement each other to help households start and continue with a self-employment activity. The six activities are: 1) productive asset transfer (a one-time transfer of a productive asset such as livestock or petty trade); 2) consumption support (a regular transfer of food or cash for a few months to about a year); 3) technical skills training on managing the particular productive assets; 4) high-frequency home visits; 5) savings (access to a savings account and in some instances, a deposit collection service and/or mandatory savings); and 6) some health education, basic health services, and/or life-skills training. This approach was originally designed and implemented by a large Bangladeshi Non-Government Organization (NGO) called Bangladesh Rehabilitation Assistance Committee (BRAC).

At the end of the intervention, they find statistically significant impacts on all 10 key outcomes.⁴ Income and revenue were significantly higher in the treatment group in every country except Honduras. The Graduation program achieves its primarily goal: to substantially increase the consumption of the very poor. It improves the lives of the very poor along many dimensions. Even though the effects of the program seem durable, the effects of the program are not very large and do not correspond to what it means to be liberated from the poverty trap.

Blattman, et al. (2014) examine the effect of a program targeted at the poorest and marginalized people that provides them a grant of USD150 along with five days of business skills training and follow-up visits that provided substantive advice, supervision, and pressure to implement the business plan. The sample consists of 15 of the poorest people in each village living in 120 small rural villages (in postwar northern Uganda 86% are women). They find that 16 months later the program increased consumption, cash earnings, labor supply, and non-farm employment; supervision and advice have little long-run impact, and group formation raises earnings through cooperative activities, suggesting that social capital is an important input.

Blattman, Fiala, and Martinez (2014) evaluate the Youth Opportunities Program (YOP), a government program in northern Uganda designed to help poor and unemployed adults become self-employed artisans. Young adults (aged 16-35) were invited by YOP to apply as a group for cash grants by submitting a

written proposal in order to start a skilled trade such as carpentry, metalworking, tailoring, or hairstyling. Of the 535 eligible groups, 265 are randomly assigned as treatment groups and 270 as control groups. Successful proposals received a one-time unsupervised grants worth, on average, USD 7,500 (USD 382 per group member). Grant recipients invest some in skills training, but most go to tools and materials. After four years, the study finds that the treatment group has 57% greater capital stocks, 17% more hours of work, and 38% higher earnings than the control group; many groups likewise formalize their enterprises (keep records, register their business, and pay taxes) and hire labor. However, they find no impact on social cohesion.

In the Philippines, an NGO called International Care Ministries (ICM) raised Php 90 million in Hong Kong on October 8, 2015 to fund its program for the 1.7 million ultra-poor people scattered in 17 provinces. ICM implements a Transform program which provides small capital and 4 months skills training to the ultra-poor. Thirty people meet once a week and train the participants on values, health, and livelihood. ICM claims to have already reached 750,000 of their target of 1.7 million people in 17 provinces. They likewise claim that the program raises household income by 101%, decreases the number of those with serious illness by 28%, increases by 20% the number of families with toilets, decreases by 36% the number of those going hungry once a week, and increases the level of family satisfaction by 25%.⁵

Finally, the Philippine government also implemented a conditional cash transfer (CCT) program called “Pantawid Pamilyang Pilipino Program” (Pantawid) which started in 2007 with a budget of Php 50 million to support 6,000 poor households. It was expanded in 2008 with a budget of Php 299 million to support 300,000 poor households, and again in 2014 with a budget of Php 62.6 billion to assist 4 million poor households. Pantawid provides cash incentives to poor households on the condition that they invest in the health and education of their children. Household beneficiaries are provided cash grants of up to Php 15,000 per year for a maximum of three eligible children (those aged 0-14). Starting in 2014, it was expanded to include children up to 18 years old in order to allow children-beneficiaries to finish high school. Exit in the Pantawid is no longer after five years, but after the three children beneficiaries graduate from high school or reach 18 years old (whichever comes first).

A second wave impact evaluation of Pantawid claims that it is on track in keeping children healthy and in school. It enumerates the following key findings: Pantawid encourages the use of modern family planning methods, promotes facility-based deliveries and access to professional postnatal care, improves

children's access to some key health care services (90% of Pantawid households are covered by Philhealth insurance program), keeps older children (12-15 years old) in school (Pantawid children from 10 to 14 years old work seven days less in a month compared to non-Pantawid children), increases households' investment in education, discourages dependency or spending more on vice goods, and allows parents to aspire for a better future of their children (DSWD, 2014).

Albert, Dumagan, and Martinez (2015) point out that, contrary to what critics claim, Pantawid was not designed to be a quick fix to reduce poverty. Nevertheless, they cite the World Bank assessment using 2013 APIS data that the first semester 2013 official poverty rate of 25% could have been 26.4% without Pantawid.⁶ The program is designed as a human capital investment to encourage the poor to send their children to school and those with young children to frequently visit health clinics. A program that requires families to send their children to school and visit health clinics must have a complementary infrastructure program component that builds schools and health clinics in areas populated by the poor with no such facilities, something that the Pantawid program does not have. With a larger budget, however, proponents of the program fear of a possible overinvestment in some areas. Elementary school enrollment, for instance, has reached 98%, while free Philhealth coverage makes its health grant superfluous. But Pantawid is now mandated to cover high school students, and Philhealth coverage is not identical to a growing availability of health centers.

CCT programs implemented in Latin America and Africa indicate that while enrollment or school attendance and health center visits improved with the implementation of CCT, learning and health outcomes do not improve significantly, if at all. In implementing a cash transfer program in Uganda, Blattman, et al. (2014) find that a simple cash transfer (with less supervision and administration costs) is more cost-effective at poverty alleviation.

Pantawid is patterned after Mexico's PROGRESA (now renamed OPORTUNIDADES), the world's first CCT program. These programs are designed to transfer cash to poor families on the condition that their children regularly attend school and the families seek preventive health care. Economists started investigating whether an unconditional program could have the same effect as a conditional one (e.g. CCT). Baird, McIntosh, and Ozler (2009) find that the effects are the same for those parents who received the conditional transfer (cash for sending their school-age girls to school) and for those who got unconditional one (cash with no condition attached on enrollment). The authors conclude that parents need not be forced to send their children to school; they always want education for their kids, and only need the financial resources.

Macroeconomic Stability and Inclusive Growth

Maintaining macroeconomic stability is a prerequisite for sustained and inclusive growth. Large swings in economic activity, high inflation, unsustainable debt levels, huge fiscal and trade deficits, volatility in the exchange rates and financial markets can all contribute to job losses and increase poverty, endangering programs geared toward inclusive growth.

The broad objective of macroeconomic policy is to contribute to economic and social well-being in an equitable and sustainable manner. Thus, it is important to achieve a certain degree of macroeconomic stability to provide a conducive macroeconomic environment for inclusive growth and development (ILO, 2012).

According to the PDP 2011-2016, a consumption-driven growth, rather than an investment-driven growth, has tended to limit its beneficial impact on employment and income. But consumption-driven growth is still inclusive if the consumption of poorer households increases or grows faster than the consumption of richer households.

Growth in economic activity is largely inclusive if it is associated with a decrease in inequality, reduction in poverty, and a decrease in exclusion. Inclusiveness broadens the growth objective by recognizing fairness as a fundamental value that needs to be promoted.

Dollar and Kraay (2002) do not find inflation to have a separate impact on poverty, while Easterly and Fischer (2001) suggest otherwise.

Using Social Weather Stations (SWS) quarterly survey data from second quarter 1992 to second quarter 2012 and employing a logistic regression model, Mapa, Lucagbo, and Garcia (2012) show that agricultural output and government spending are two crucial components that will reduce the probability of a high state of poverty in the Philippines. They define “high” state of poverty when 61% of the population considered themselves as poor.⁷ The findings likewise indicate that once the Philippines is in the state of high poverty, it stays there for an average of 24 quarters or six years before moving out. They further find out that both underemployment and food inflation have the same impact on “high” state of poverty. That is, a one-percentage point increase in either underemployment or food inflation will increase the probability of high state of poverty by about four percentage points.

Appendix B provides three categories of provinces: (1) those with a high number of poor families, (2) those with the highest percentage of families considered poor, and (3) and those exposed to multiple hazards (perennially visited by typhoons, more vulnerable to disasters, and/or located in the conflict-

affected areas). Provinces located in the NCR benefit from the economies of scale by having access to logistics, infrastructures, technology, inputs, products, and people-to-people connectivity. To make growth truly inclusive, constraints faced by provinces in taking advantage of opportunities must be deliberately addressed. Since provinces are situated differently (in terms of location, quality of institutions, state of natural environment, stock of human and physical capital, degree of financial market development), no one-size-fits-all policy is appropriate. Policies relevant to address the constraints of Category 1 provinces, may not be able to address the constraints faced by Category 3 provinces. Policy design, formulation, implementation, monitoring, and evaluation have to be Category-specific (NEDA, 2014).

Using SWS quarterly surveys on hunger covering the period 2000-2013, Mapa, Castillo, and Francisco (2015) look at the factors that influence the dynamic nature of hunger in the Philippines, which stands 18.3% of the population in 2014. Among the determinants of hunger that they identify most significant are the price of rice and the misery index (sum of the employment and unemployment rates). An increase in the price of rice at the current quarter also increases the hunger incidence in the next quarter. The same relationship applies to the correlation between the misery index and hunger incidence, but hunger incidence is very sensitive to changes in the price of rice. Mangahas (2009) links self-rated poverty with general price inflation across time.

The SWS-generated self-rated poverty study also reveal that the major factor affecting poverty is general inflation in the previous quarter, and the secondary factors affecting poverty are food-price inflation and underemployment.⁸

Conclusions and Recommendations

The hypothesis that economic growth will reduce poverty has been widely discussed and debated, but studies have so far produced mixed results. The general finding is that the effect of an increase in average income on the income of the poor is not proportional. Other factors also affect the well-being of the poor.

Local studies confirm these for the Philippines. But the growth elasticity of poverty estimated for the country is lower compared to the elasticity estimated in other developing countries. Poor households are mostly located in rural areas, are engaged in agriculture, and tend to have larger family sizes. There is a considerable movement in and out of poverty, suggesting that the poor households are vulnerable to shocks. Economic growth in rural areas also have a higher impact on poverty reduction than its urban counterpart.

While it is true that there are no deep parameters linking growth with poverty and inequality, most of the findings agree that high levels of inequality are found to have a negative impact on poverty reduction. The rise in poverty is due to the lack of growth in real income as well as the lack of redistributive efforts that can improve the spreading of income in favor of the poor.

Policy Recommendations:

On Human Capital for the Poor

- Continue the K-12 Program, but improve its implementation efficiency by stretching the time frame for teacher training, class material, and textbook development; for instance, the preparation of L1 and L2 mother language instruction materials lagged behind the K-12 implementation schedule.
- CCT is a long term human capital anti-poverty program, but not a livelihood or skills-training program for the families and the 15 to 18 year old out-of-school youths. This program should be continued, but its inefficiencies should be straightened. The relatively high administrative cost under the Department of Social Welfare and Development (DSWD) framework should be reduced, and separate the implementation from the evaluation set up of the Asian Development Bank (ADB) and World Bank which partly lend money to the Philippine government to fund the CCT. Both have an interest in the positive evaluation of the project therefore, independent evaluators should be hired.
- The government should adopt an explicit target for preventing and reducing unemployment and reinforce this policy direction by offering guaranteed public employment at the minimum wage to those who seek it. For the rural sector, a cash-for-work program can address the livelihood and earnings goals which are not addressed by the CCT. Instead of spending Php 70 billion for the CCT, spend instead Php 40 billion for CCT and Php 30 billion for the cash-for-work program. The latter can be implemented as an employment scheme focused on rural public works like building farm-to-market roads, irrigation systems, post-harvest facilities, and similar infrastructures.
- Implement religiously the recently passed Unified Financial Assistance of Students in Tertiary Education Act which is aimed to provide

financial assistance (student loans and subsidized tuition fees) to poor but deserving college students.

On Pro-Poor Infrastructures

- Among the Public-Private-Partnership (PPP) projects that were awarded, only Mactan Cebu Airport Terminal Building, Sasa Davao Port, and the Privatization of Bacolod, Iloilo, Davao, and Cagayan De Oro Airports are located outside of Metro Manila and Luzon. The rest are centered in Metro Manila and CALABARZON. Since PPP projects are only attractive to the private sector in Manila and its adjacent regions, Department of Transportation and Communications (DOTC) and Department of Public Works and Highways (DPWH) infrastructure spending programs must be designed to offset this regional imbalance and support the road, rail, maritime, and air connectivity of the greater capital region to the hinterlands. Participation of small-and medium-scale enterprises in the design, construction, implementation, and monitoring of these projects are pro poor. For instance, DOTC's prioritization or non-interference with local government units (LGUs) initiatives in designing, constructing, and implementing Bus Rapid Transit (BRT) systems and monorail systems to already traffic-choked metropolises of Cebu, Davao, Iloilo, and Baguio must be given national (regionally-balanced) policy attention.
- PPP for School Infrastructure Projects are Luzon-centered. An inclusive school infrastructure program is regionally balanced. The new government must see to it that a pro-poor infrastructure project, even under the PPP set up, must be inclusive.

On Anti-Poverty Institutions

- Institutions influence the impact of the government's anti-poverty program. A cash-for-work program in the rural sector is best implemented by the Department of Agriculture in coordination with the Department of Labor and Employment. CCT is best implemented by the National Anti-Poverty Commission in coordination with the DSWD. The latter is in a better position to concentrate on pre-disaster evacuation, relocation and on post-disaster relief and rehabilitation in coordination with the LGUs.

- Previous governments failed in their anti-poverty program because they over-promised with too much on their agenda. A weak state with budget constraints must set a limit or target to its anti-poverty program. A 6-year regime focused on performance and accountability of existing institutions (enforcing strict monitoring and giving sanctions for weak performance) has already achieved an excellent and doable institutional reform agenda. Spending precious time and political capital within the 6-year term trying to reorganize and merge anti-poverty institutions is a lost cause in “Dreamland”.

¹ Felipe (2012) argues that the most important way in which a person can participate in a society and contribute to its progress is through a productive and decent job.

² This implies a growth elasticity of 1, meaning that a 1 percent increase in overall average income increases by 1 percent the average income of the poorest 20% of the income distribution.

³ Growth elasticity of poverty reduction is the percent change reduction in poverty for every percent increase in mean income.

⁴ These 10 outcomes or indices are: total per capita consumption, food security index, asset index, financial inclusion index, total time spent working, incomes and revenues index, physical health index, mental health index, political involvement index, and women’s empowerment index.

⁵ Philip Tubeza, “HK Rich Raise P90M for ‘Ultrapoor’ in PH,” *Philippine Daily Inquirer*, October 25, 2015, pages A1 & A10.

⁶ At the roundtable discussion on August 12, 2015, Vicente Paqueo (PIDS economist) answered critics’ concerns on the Pantawid. He states that Pantawid works as an effective strategy: (1) for building poor and disadvantaged children’s human capital, (2) for reducing intergenerational poverty and the unacceptable component of inequality of opportunity arising from “circumstances” a child is born into, (3) for reaching the poor and near-poor; even if targeting is imperfect, about 90% of the beneficiaries belong to the poor quintiles, (4) for having high private and social economic internal rate of return (EIRR) which indicates pro-poor redistribution of income and wealth; and (5) it is unrealistic to expect Pantawid to achieve escape velocity out of poverty cycle, given average Pantawid grant is only 7% or so of beneficiaries’ household income.

⁷ A one percentage point increase in agricultural output in the last quarter decreases the probability of “high” state of poverty by about 8 percentage points; and a one percentage point increase in government spending in the last quarter will decrease the probability of “high” state of poverty by about 11 percentage points.

⁸ Mahar Mangahas, “Naïve Projection of Poverty,” *Philippine Daily Inquirer*, January 24, 2015.

Appendix A

Poverty, Food Insecurity, and Vulnerability

ADB (2014) has developed a vulnerability-adjusted poverty line and estimated the number of poor by adjusting the USD 1.25 per person per day poverty line (or the Asian poverty line of USD 1.51 per person per day) for food insecurity and vulnerability. The rationale for this is that the cost of basic needs contains a food component which means that food security is an important part of poverty reduction. Table A.1 shows the number of poor in the ASEAN using poverty lines adjusted for food insecurity. Likewise, households or individuals can be hit by an unexpected shock or tragedy such as bad harvests, job losses, illness, or natural disasters, which pull their standard of living into poverty. Table A.2 shows the number of poor in the ASEAN using poverty lines adjusted for vulnerability.

Table A.1: Poverty in ASEAN Food Insecurity
(Number of Poor in Million)

	2005	2008	2010
Cambodia	4.51	3.14	2.08
Indonesia	48.73	71.74	67.18
Lao PDR	2.27	2.4	2.10
Malaysia	0.11	0.02	0.04
Philippines	19.02	18.85	18.93
Thailand	0.68	0.43	0.62
Vietnam	20.55	19.07	18.25

Source: ADB (2014), Table 3.3, page 18

Table A.2: Poverty in ASEAN Adjusted for Vulnerability
(Number of People in Million)

	2005	2008	2010
Cambodia	5.27	4.25	3.29
Indonesia	67.18	72.49	64.94
Lao PDR	2.71	2.53	2.26
Malaysia	0.23	0.32	0.35
Philippines	25.68	24.30	24.63
Thailand	1.91	0.96	1.01
Vietnam	28.95	23.51	22.06

Source: ADB (2014), Table 4.3, page 30

Appendix B

Spatial Dimensions of Poverty

Category 1: Ten Provinces With High Magnitude of Poor Households, 2010

Province	Region	Number of Poor Households
Zamboanga del Sur	Western Mindanao	170,181
Cebu	Central Visayas	151,425
Pangasinan	Ilocos Region	148,601
Negros Occidental	Western Visayas	138,664
Camarines Sur	Bicol Region	136,208
Leyte	Eastern Visayas	132,377
Iloilo	Western Visayas	122,770
Sulu	ARMM	122,218
Quezon	CALABARZON	122,139
Davao del Sur	Davao Region	111,655

Category 2: Ten Provinces With Highest Poverty Incidence (Based on 2012 Population)

Province	Region	Poverty Incidence (%)
Lanao del Sur	ARMM	73.8
Maguindanao	ARMM	63.7
Eastern Samar	Eastern Visayas	63.7
Apayao	CAR	61.4
Zamboanga del Norte	Western Mindanao	54.4
Camiguin	Northern Mindanao	53.6
Sarangani	SOCCSKSARGEN	53.2
North Cotabato	SOCCSKSARGEN	52.4
Masbate	Bicol Region	51.3
Northern Samar	Eastern Visayas	50.2

Category 3: Thirty Provinces Exposed to Multiple Hazards

Region	Province
Ilocos Region	Ilocos Norte Ilocos Sur
Cordillera Autonomous Region	Abra Benguet
Cagayan Valley	Cagayan Quirino Isabela Nueva Vizcaya
Central Luzon	Zambales Pampanga Aurora
CALABARZON	Cavite Laguna Rizal Quezon
Bicol Region	Albay Catanduanes
Western Visayas	Antique Iloilo
Central Visayas	Bohol
Eastern Visayas	Eastern Samar Leyte Northern Samar Southern Leyte
Western Mindanao	Zamboanga del Sur Zamboanga Sibugay
CARAGA	Dinagat Islands Agusan del Sur Surigao del Norte Surigao del Sur

Source: NEDA (2014)

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Strategic Policy Directions for Governance Reform

FRANCISCO A. MAGNO, PH.D.

As a mechanism and process, governance links political institutions in society. These include not only formal constitutional and electoral systems that allocate power but also informal ones, grassroots institutions of power that fuel collective action. These institutions affect the way social preferences are formulated and collected, including the kinds of rules and institutions that emerge over time in a society. Governance also steers the implementation strategy for policy choices, and so building institutional capacity is required to carry out any action plan (Baland, Moene, and Robinson 2009).

These skills and knowledge should work toward further building governance capacity. These include acquiring state capacity to foster investment, access innovative technology, and encourage knowledge deployment for local development (Khan 2008). Governance is concerned with creating conditions that are conducive to ordered rule and collective action (Stoker 1998). It refers to the traditions and institutions that determine how authority is organized and practiced in a country. Six major criteria are examined in the World Governance Indicators, including voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption (Kaufmann, Kraay, and Zoido-Lobaton 2000).

The 2016 elections represent an important juncture for the Philippines. The current administration under Benigno Aquino III has pursued numerous reforms in Philippine governance, which to some have translated to steady economic growth rates over the past few years.

This context of continuity informs the following analysis. It looks at the historical trends in governance indicators in the Philippines. For each indicator,

the trend is described then contextualized based on pertinent events and policies. Specific policy recommendations are then cited to enhance and enrich government's approach to governance.

World Governance Indicators

This paper makes use of time series data on the performance of the Philippines in the World Governance Indicators (WGI) over an 18-year period from 1996 to 2014. The data were obtained from the World Bank through its Open Development Initiative (data.worldbank.org). Estimates give the country's score on the aggregate indicator, in units of standard normal distribution, ranging from -2.5 to 2.5.

Scoring was based on the Unobserved Components Model that ensures standardization and comparability of data obtained from various sources. At the same time, the model generates the aggregate indicator as a weighted average that considers the margin of error to avoid imprecision. Various sources of information to create the index are expert assessments coming from commercial business information providers, public sector data providers, and non-governmental organization data providers (Kaufmann, Kraay, and Mastruzzi, 2010).

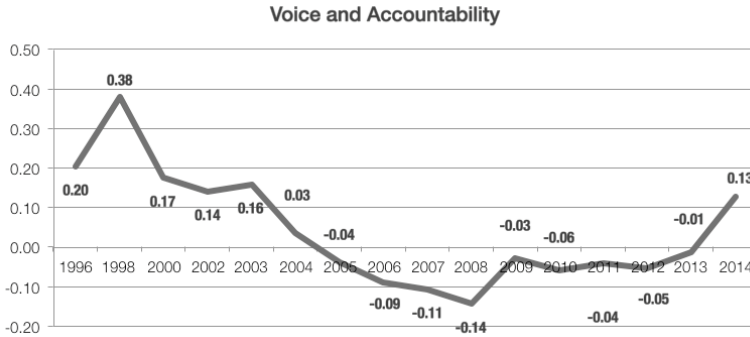
For 2015, with improved grades in public services, regulatory quality, and other factors, the Philippines improved its marks in the WGI survey. It scored higher on five out of six indicators year-on-year, namely voice and accountability, political stability, government effectiveness, regulatory quality, and rule of law. It only scored low on control of corruption.

Voice and Accountability

Voice and Accountability include citizens' perceptions on the range of their participation in choosing their government, as well as the extent by which freedom of information, freedom of association, and media freedom are exercised.

Table 1 presents the movement in the voice and accountability index in the Philippines. The index attained its highest record in 1998 at 0.38 points but declined to a very low -0.14 points in 2008. From 2008, it reached an improved standing at 0.13 points in 2014. This indicates that the government has been in constant pursuit of reforms to ensure that the people's voices are heard and greater transparency and accountability issues are addressed.

Table 1: Voice and Accountability Index in the Philippines: 1996-2014



The most frequent formal process of democratic participation, elections, has been accepted by Filipinos as the legitimate mechanism for the transfer of power since it was introduced by the American colonial government in 1907 (Bertelsmann Stiftung [BS] 2003, 5; Teehankee 2002, 149). This is further evidenced by the people’s interest in actually participating in the electoral and political processes. In the 2005 Asian Barometer, for example, 53 percent of Filipinos expressed interest in politics and 62 percent monitor news about politics and government on a regular basis, with only 34 percent believing that voting does not matter (Dressel 2005, 535). Voter turn-out is also high throughout the elections covered in the time-series data (1998, 2001, 2004, 2007, and 2010).

However, the democratizing effects of these processes are hampered by several institutional defects. In the absence of a Political Party Strengthening Act and a Campaign Finance Strengthening Act, personality-based politics and informal power centers that revolve around political dynasties dominate electoral competition especially at the local level. With weak political parties, electoral coalitions tend to be built on patronage relations and money politics. The high cost of running electoral campaigns has the effect of limiting participation to competing elite camps.

The increase in Filipino diaspora communities all over the globe and the expansion of the voters’ base led to relevant electoral reforms. In 2004, Filipinos living overseas were granted the right to vote. Elections were automated in 2010, three years after the Automated Elections Act was passed in 2007.

Meanwhile, the other facets of political participation also provide a positive picture, although significant issues continue to exist. Freedom of religion and conscience had been relatively better guaranteed. The right of association had been good as well, as evidenced by the multiplicity of non-governmental, civil

society and cause-oriented organizations that have sprung up over the years. Freedom of expression, of assembly, and of media have been generally exercised and extensively so by all. Threats came from time to time. The administration of Gloria Macapagal-Arroyo (2001-2010) saw the greatest resurgence of threats to these rights, both from within and without the government. The government imposed partial but hardline restrictions on assembly and expression rights, such as the Calibrated Pre-emptive Response from 2005 to 2006, and the declaration of the week-long national state of emergency in February 2006 (BS 2008; 2006).

Libel is still a crime in the Philippines, and this had been used to silence oppositionists (Freedom House (FH) 2015; Dressel 2011; BS 2006). Extrajudicial killings continue to threaten the lives and liberty of media practitioners, journalists, activists and concerned citizens (FH 2014; Dressel 2011). The Human Security Act of 2007 also has potentially adverse effects to media freedom, as it “allows journalists to be wiretapped based on suspicion of involvement in terrorism” (FH 2015). Lastly, while the Internet is freely available in many parts of the country, developments like the passage of the Cybercrime Prevention Act of 2012 have distorted this freedom. For one, the law expands libel to include those committed online. The Supreme Court in February 2014 has clarified that only the original author of purportedly libelous material should be penalized, not those who reposted or reacted to it (FH 2015).

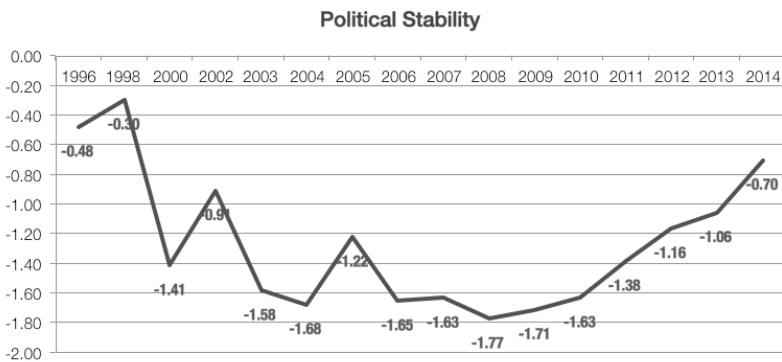
Recent governance reforms have created more avenues for public participation in national governance, in view of an evolving idea of social accountability. This has come to include citizen monitoring and oversight of public and/or private sector performance, user-centered public information access and dissemination systems, public complaint and grievance redress mechanisms, as well as citizen participation in actual resource allocation decision-making, such as participatory budgeting. At this point, not only is government’s social accountability tested on its ability to open up information to the public alone, but also on its ability to deploy multiple tactics, encourage enabling environments for collective action for accountability, and coordinate citizen voice initiatives with reforms that bolster public sector responsiveness (Fox 2015).

A particular area of note in this regard is in fiscal policy. The Bottom-Up Budgeting (BUB) Process was introduced in 2012 as a mechanism that can be used by local civil society¹, local governments, and local offices of national agencies to determine local priority projects for incorporation into the national budget. For the 2015 budget, all 1,534 cities and municipalities were covered, with a total of 20,899 identified projects and an accompanying budget of around Php 20.8 billion.²

The Department of Budget and Management (DBM) decided to organize an annual People’s Budget Forum and Civil Society Organization (CSO) Briefing during the first quarter of the year to provide information on the windows that are available for public participation in the budget process. It also summarized the 2012 and 2013 national budgets in a less technical format through the People’s Budget publications and the BudgetNgBayan.com site (DBM 2015). During the 2015 budget preparation, the DBM pushed for the Open Government Data Policy by asking all national agencies to make fully available and accessible datasets created, collected, processed, and disseminated (DBM 2015).

Lastly, the Commission on Audit (COA), the supreme audit institution in the Philippines, has a program called the Citizen’s Participatory Audit (CPA), in which COA partners with CSOs to form special audit teams and conduct value-for-money audits of selected government projects. COA also accepts complaints from concerned citizens through the COA citizens’ desk, made accessible through its website.

Table 2: Political Stability Index of the Philippines: 1996-2014



Political Stability

The Political Stability index measures perceptions of the likelihood of political instability and politically-motivated violence, including terrorism. The index depicting the perceptions on the political stability and absence of violence/terrorism is shown in Table 2. The drastic decline in the index is visible from 1998-2000, where the index dropped from -0.30 to -1.41. Similar episodes of reduced confidence in maintaining political stability and the absence of violence and terrorism took place from 2002 to 2003, and from 2005-2008, where the perception index reached its lowest mark at -1.71. Soon after, the table shows

continuous improvement in the perception index, having reached -0.70 in 2014, suggesting the steadily increasing confidence in the Philippine government to maintain peace and order and to ensure that no acts of violence and terrorism will succeed in the country.

A prolonged stage of political stability helps boost consumer and business confidence, fostering a positive outlook for the private sector. According to the Institute of Chartered Accountants in England and Wales, the country is posting consistent growth rates as moderate inflation and low interest rates help drive investment. Nevertheless, the international accountancy association also noted that there are risks to these plans, stemming from the potential for misallocation of resources and uneconomical projects resulting from poor governance.

The most persistent challenge to political stability is the conflict in the Muslim Mindanao region. The conflict in the Muslim areas has transformed over the past forty years from an ethno-nationalist contest between an aggrieved minority and the central government into a severely fragmented conflict with overlapping sources of tension. While state-minority struggle has been seen as the dominant form of contestation in the Muslim areas, inter-elite competition is the major source of fighting across Mindanao. Local-level disputes can evolve into state-minority conflict. Clan conflicts or *rido* have also instigated state-insurgent violence. Conflict dynamics differ from one community to another, and even within the same province, depending on the character of local elite political networks and the presence of insurgent groups (Adriano and Parks 2013).

Recent administrations have pursued various approaches in resolving the Mindanao question. Fidel Ramos (1992-1998) chose to pursue negotiations with the Muslim separatist groups Moro National Liberation Front (MNLF) and the Moro Islamic Liberation Front (MILF), highlighted by the signing of the 1996 Peace Agreement between the MNLF and the Philippine government. This was reversed by Joseph Estrada (1998-2001), who chose to launch all-out war against the rebels. Gloria Arroyo reverted back to negotiations as soon as she assumed power. Relations between the separatists and the government have vacillated between negotiations and hostilities, with high points including the resumption of peace talks in 2003 with the help of Malaysia and the Organization of the Islamic Cooperation (Montesano 2004, 98), and low points including the condemnation by the Supreme Court of the agreement regarding the Bangsamoro Juridical Entity (BJE) in August 2008 (Hicken 2009, 195).

The Aquino administration also took the path to peace. In 2014, the government and the MILF signed a peace accord called the Comprehensive Agreement on the Bangsamoro (CAB). It provides for a comprehensive approach

toward achieving security and peace in the proposed autonomous region. The disbandment of private armed groups (PAGs), together with the gradual and phased decommissioning of MILF weapons and combatants, are part of the bigger normalization process under the accord. The pending legislation of a Bangsamoro Basic Law (BBL) would serve as the legal iteration of the agreement.

The Office of the President had also ordered, through a memorandum circular, the disbandment of PAGs in this proposed autonomous region. The memo argued for the urgency to disband PAGs in the Bangsamoro as “the major causes which primarily contribute to its proliferation such as very low level of human security, gun culture, ‘rido’ or clan war, political dynasties and the use of military and police auxiliaries still exist in some affected communities.”

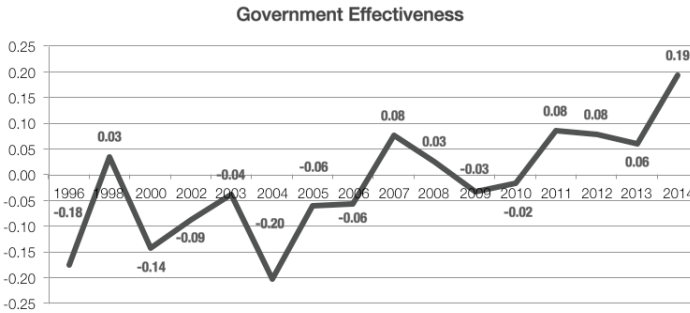
Congress has yet to enact the BBL, so these processes have not yet been put in place. Failure to pass the BBL would revert the situation back to status quo, or the Autonomous Region in Muslim Mindanao (ARMM) and, with it, all of its defects. Moro militants would also not decommission their firearms. Although the MILF has pledged their commitment to the CAB and the BBL until the next administration, frustrated members might move out to join or establish more radical groups. First of these, the Bangsamoro Islamic Freedom Fighters (BIFF) is a splinter group from the MILF. The urgency of resolving the Moro conflict was also emphasized by the 2015 skirmish in Mamasapano, Maguindanao that resulted in the deaths of 44 members of the Philippine National Police Special Action Force (PNP-SAF), 18 members of the MILF, and 5 members of the BIFF.

Government Effectiveness

Government Effectiveness captures perceptions of the quality of the public service and the 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.

As shown in Table 3, the country’s government effectiveness index has been inconsistent over the years. It shows an alternate rise and fall of ratings from -0.18 in 1996 to -0.06 points in 2005 and 2006, before it went up to 0.08 points in 2007. After a slight decline from 2011 to 2013, the index rose 0.13 points in 2014. This improvement has exceeded the past maximum record that the country attained during 2007, 2011, and 2012.

For the longest time, the Philippine bureaucracy has been seen as inefficient and bloated. By 1999, there were 19 civil servants for every 1000 citizens in the

Table 3: Government Effectiveness Index of the Philippines: 1996-2014

Philippines (NEDA 2001, 257-8, cited in Domingo and Reyes 2011, 404). Citizens have long been demanding a more efficient, cost-efficient, and better distributed bureaucracy, especially since more than 30 percent of the national budget is allocated to salaries alone (Domingo and Reyes 2011, 405). During the Ramos administration, the Government Corporate Monitoring and Coordinating Committee moved for the streamlining of the public delivery systems of 130 agencies, representing 45 percent of national government agencies. There were a total of 48 agencies that down-scaled their operations from 1992 to 1995. Estrada followed suit with the establishment of the Presidential Committee on Effective Governance (PCEG) in 1999, whose scope widened to include Government-Owned and Controlled Corporations (GOCCs) and State Universities and Colleges (SUCs). Arroyo adopted Ramos' programs (Domingo and Reyes 2011). In addition, she directed, through executive orders, all national agencies and local governments to conduct a strategic review of their operations and organizations, to focus both national and local government efforts and resources on core services, and improve the quality and efficiency of public service delivery (Medium-Term Philippine Development Plan 2004-2010, 283-4).

Even with these downsizing measures, the Philippine bureaucracy has remained inefficient in the delivery of basic social services. The bureaucracy may actually be understaffed. In 2009, 1.5 million civil servants have to serve 91 million citizens (Domingo and Reyes 2011, 398). The distribution of government personnel, including the Philippine National Police (PNP) and the Armed Forces of the Philippines (AFP), is also heavily lopsided towards the center, with only 23 percent employed in the local government units (Domingo and Reyes 2011, 399).

Worse, the employees that provide the backbone of the bureaucracy are underpaid compared to their private counterparts, despite the passing of the Salary Standardization Law. Civil servants are thus heavily exhausted and unmotivated,

leading even the most competent to either leave the government, to perform below the expected quality or, worse, to become corrupt. The last scenario and the struggle against it is discussed in a later section.

Another area of concern is the state of public infrastructure. According to the World Economic Forum's Global Competitiveness Report 2011-2012, the country's ports, airports, railroads and roads are underdeveloped, with railroads being the worst developed (cited in Yap and Majuca 2013, 30). Electricity infrastructure is also found lacking, with areas still experiencing unreliable or even non-existent electricity (ADB 2007, 49-50, cited in Yap and Majuca 2013, 6). Without good infrastructure, both public and private goods, services and investments could not be efficiently used and distributed, thus stunting the socioeconomic growth and development in the country (Yap and Majuca 2013).

It is therefore little wonder that the speed and quality of the delivery of basic services are heavily sacrificed. Social insurance as provided by the Social Security System (SSS) and the Government Service Insurance System (GSIS), and health insurance as provided by Philippine Health Insurance Corporation (PhilHealth) are subject to bureaucratic red tape, coverage insufficiencies, and internal corruption (BS 2010). Other services, such as health, and education also suffer low quality and slow delivery (Yap and Majuca 2013).

A notable area of progress is in the area of procurement. The Government Procurement Reform Act (GPRA) was promulgated in 2003 to streamline the procurement system of the country. The 2012 Country Procurement Assessment Report (CPAR) of the Asian Development Bank (ADB) has also noted several areas of progress, including strengthened communications and coordination among national agencies, development partners, procuring firms, and other stakeholders, resulting to greater compliance to GPRA.

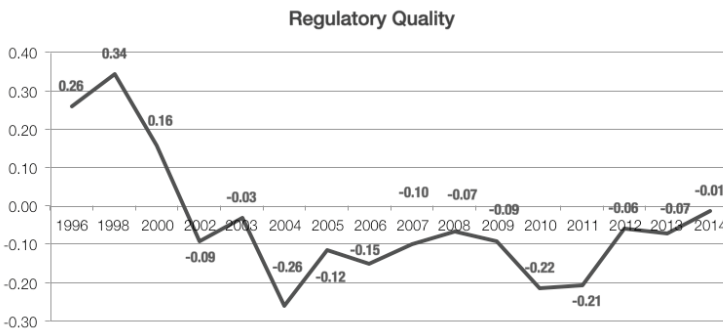
Even so, despite attempts at harmonization and simplification, compliance by local governments remains under question. Other issues include the use of the Approved Budget for the Contract as the ceiling for bid prices and the award of contracts, the absence of an independent and autonomous complaint appeals body to resolve protests especially on bidding results, and the absence of prequalification procedures (ADB 2012).

Regulatory Quality

Regulatory Quality gathers perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and

promote private sector development. As seen in Table 4, the overall picture of regulatory quality in the country has been decreasing. From 0.34 in 1998, it fell to a dismal -0.09 in 2002, and has never reached the positive mark ever since. The improvement in the index is not consistent except from the years 2006 to 2008. From 2004 to 2014, the index improved by -0.25 points. This is an indication that the government has to continuously seek improvement in the formulation and enforcement of regulation in the country to further improve the perception index and revert back to positive levels.

Table 4: Regulatory Quality Index of the Philippines: 1996-2014



From the Corazon Aquino administration to the present, the focus of regulation in the country has been on liberalization, privatization and deregulation (Llanto 2015). Ramos continued and expanded its liberalization program through tariff reductions, and reformation of the Philippine central bank, the enactment of the Public Telecommunications Policy Act of 1995 to regulate the telecommunications sector, and the privatization of water distribution in Metro Manila, among others. Estrada furthered this thrust by enacting the General Banking Law of 2000 and the Retail Trade Liberalization Act of 2000, which partially opened retail trade to foreign investments. Arroyo went on to enact the Electric Power Industry Reform Act of 2001, which liberalized the energy sector, and the Anti-Red Tape Act of 2007, which made mandatory the completion and release of simple transactions (e.g. licenses and permits) in five days and of more complex documentations and transactions in ten days. The current administration centered on governance and institutional reforms (e.g Run After Tax Evaders program, Run After the Smugglers program) and fiscal and budgetary reforms (e.g Republic Act No. 10351 or the Sin Tax Reform Law of 2012, Budget Priorities Framework, Government Integrated Financial Management Information System, Organizational Performance Indicator Framework; Llanto 2015).

However, there are still challenges to the regulatory regime in the Philippines. According to ADB (2012), these include the need to improve the level of skills and knowledge in analyzing the impacts of regulations, weak coordination across departments in the development and assessment of laws and regulations, and a weak interface between government and business in regulatory development and implementations (e. g. poor consultation practices and access to regulatory information). Furthermore, the Organization for Economic Cooperation and Development (OECD 2010) has noted that core regulatory institutions and processes would have to be developed further through (1) strengthening evidence-based impact assessment to support policy coherence; (2) improving institutional capacities to identify and drive reform priorities; and not least (3) paying more attention to the voice of users, who need to be part of the regulatory development process.

The Philippines has yet to establish a fully and efficiently functioning regulatory management system. The numerous regulatory policies are in need of review and, if necessary, simplification and clarification. Also, despite the numerical adequacy of regulatory institutions, regulatory governance remains weak because of the inefficiencies and defects of both core and supporting institutions, such as the bureaucracy and the judiciary. Furthermore, though policy dialogue and consultation occur as standard operating procedure within agencies, these processes do not reach and cut across agencies, leading to weak coordination among them. Lastly, assessments on the outcomes and impacts of regulations are not part of the standard procedures of any regulatory agency in the country, let alone part of the standard operations of the whole government (Llanto 2015).

A particular area which needs improvement is the regulation and utilization of information and communications technology (ICT) for the purposes of governance. The Philippines has one of the most expensive but slowest broadband speeds in the region. A manifesto (Araral 2015) was released clamoring for the urgent maximization of ICT by government. To wit:

Guaranteeing this connectivity will require multiple policy levers to nudge investment, interconnection, competition and innovation. We need a smart and responsive regulatory system that adapts to fast-paced technological change, while providing enough predictability to encourage long-term investments... Officials must ensure that regulation takes into account the convergence of communications technologies and incorporates principles of technological neutrality and open-access. Policy and legal frameworks that facilitate trusted computing, such as regulations on privacy, data protection and cyber security, need to be in place. The Manifesto called

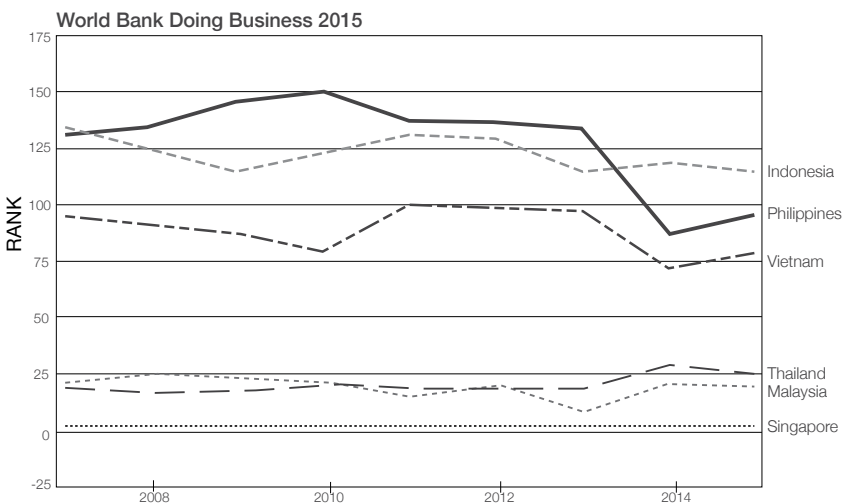
on government to lead by example in using technology to improve its provision of public goods and services. Examples abound of how ICT can be deployed to automate government requirements and exponentially ease the process of doing business in the country.

The National Information Technology Council (NITC) has long recognized these needs, and further attests to the need for the system to facilitate the communication, information exchange, and action coordination and harmonization among government departments and agencies (2000). To this day, however, there remains a substantial gap toward fully realizing the potential deployment of e-government in the Philippines, a result of a lack of policy initiative and coordination to establish, upgrade, and improve government ICT infrastructure, systems and related procedures (Alampay 2013).

In response, DBM, National Economic and Development Authority (NEDA), and the newly named Information and Communications Technology Office (ICTO) convened the Medium-term Information Technology Harmonization Initiative (MITHI) in 2014. Initial successes in Information Technology harmonization were witnessed in the public health sector, indicative of a growing momentum for the full electronic integration of the government (Alampay 2013).

Another specific area of concern is the ease in which businesses interact with government to start and run an enterprise. The latest World Bank (2015)

Table 5: Ease of Doing Business



Source: The World Bank (2015). A lower number meant a higher rank, and thus a better performance record

report saw the country's rank slip from 97th in 2014 to 103rd in 2015. Countries are ranked based on several indicators such as starting a business, dealing with and getting construction permits, property registration, and paying taxes. The country's worst score was in the area of starting a business, where the country ranked 161st with 16 required procedures in an average of 29 days. The best score is on getting electricity, where the Philippines ranked 16th with only 4 procedures in 42 days. Other areas include dealing with construction permits, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency. The table above illustrates the comparative trend of ranks between the Philippines and selected Southeast Asian countries.

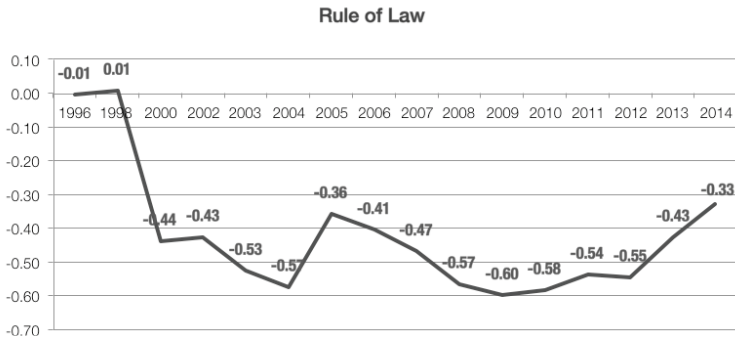
Still, there were a number of very important successes in governmental business competitiveness since 2008. With regard to solving insolvency, prepackaged reorganization schemes were made available and receiver qualifications had been established by 2010. In 2012, a new insolvency law was enacted that provides for the liquidation and reorganization of insolvent companies. Credit information systems are regulated through legislation starting 2010. An electronic filing and payment system for social security contributions was introduced in 2014 to ease tax payment. Time and financial costs were reduced in international trading by improving customs systems, adding functions like electronic payments and online submission of declarations (Llanto 2015). Despite these, however, the overall rank of the country remains relatively low, indicating the need to improve business regulation.

Rule of Law

The Rule of Law criteria integrates perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.

On this index, the country has maintained its rank from 1996-1998 (Table 6). After 1998, the index declined by -0.58 points to -0.57 points in 2004. A similar gradual decline took place in the next four years from -0.36 in 2005 to a very low -0.60 points in 2009. While there is a slight decrease in the index from 2011-2012, the index rose up to -0.33 in 2014. It could be inferred in the most recent perceptions index that the Philippine government is adjusting towards better implementation of the rule of law in the country.

Table 5: Rule of Law Index in the Philippines



Despite the positive trend, rule of law remains as one of the perennial problem areas in Philippine governance. As already noted, extrajudicial killings and other forms of political violence continue to occur. The most glaring example is the so-called Maguindanao massacre in 2009, where 58 civilians, including 32 journalists, were killed by the victims' political rivals. By 2014, six witnesses had been killed since trial commenced (BS 2014). Arbitrary detention, disappearances, kidnappings, and abuse of suspects are also persistent throughout the country, often implicating police and military personnel. A 2014 Amnesty International report cited 75 torture cases in 2013, with most victims being women and children (FH 2015). The same report attributed these persistent trends in part to "fear of reprisal by authorities and lack of knowledge about, and legal obstacles to, victims filing criminal charges...in addition to lack of access to medical examinations, overlapping rules and agency mandates, and an overstretched police force" (FH 2015). Prosecutions against perpetrators of such kinds of violence have been rare (FH 2014; 2015) and worsened by institutional peculiarities: the Department of Justice's (DOJ) jurisdiction over both the Witness Protection Program and the Office of Solicitor General, which, as the legal counsel of the whole Philippine government, serve as the counsel of the police and the military, indicating a grave conflict of interest (FH 2014).

Subsumed under the rule of law is the administration of justice, and the patterns in this specific area are equally troubling. Freedom House (2014; 2015) notes that:

Judicial independence has traditionally been strong, particularly with respect to the Supreme Court. However, the efforts of the judiciary are stymied by inefficiency, low pay, intimidation, corruption, and high vacancy rates, which contribute to excessive delays and a backlog of more than 600,000 cases. In total, almost 24 percent

of positions remain unfilled, according to the Supreme Court. The judiciary receives less than 1 percent of the national budget, and judges and lawyers often depend on local power holders for basic resources and salaries, leading to compromised verdicts. At least 12 judges have been killed since 1999, but there have been no convictions for the attacks.

Judicial independence is further compromised by bribery perpetrated by rich and powerful individuals to influence civil and/or criminal cases in which they are involved, whether directly or indirectly (BS 2014).

A measure of efficiency in administering justice in the country is the amount of time a case is in backlog. In the country, a criminal case languishes 14.6 months, or 438 days, on average. This inefficiency is consistent with the pattern noted above.

Table 7: Administration of Justice in the Philippines: 2011 - 2013

Philippines	Count			Average Count	Months of Backlog
	2011	2012	2013		(Cases Pending Divided by Cases Adjudicated) *12
Pending Criminal Cases	186,113	188,238	173,243	182,531	14.6%
Cases Adjudicated as Percentage of Cases Initiated in 1st Instance Courts	150,113	158,336	141,918	150,122	102.8%
Cases Adjudicated as Percentage of Cases Initiated in 2nd Instance Courts	124,582	127,709	118,393	123,561	90.0%

Source: UN Office on Drugs and Crime Statistics (2013)

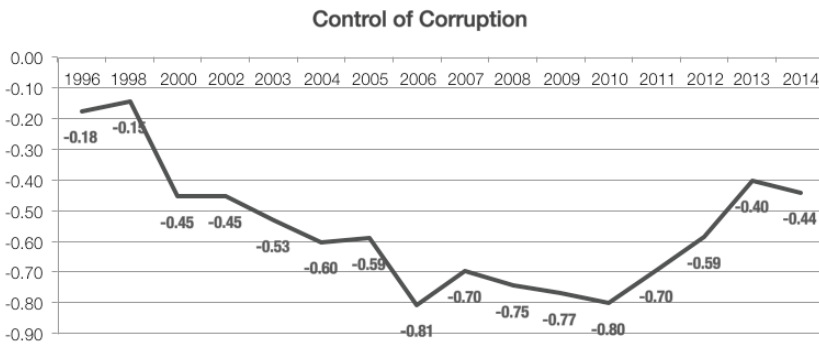
A 2007 assessment of Philippine justice sector reform by ADB reported that one of the immediate causes behind the persistence of underperformance in the justice sector—despite commitment to important ongoing reforms—were inadequate resources and support facilities. Due to fiscal constraints, justice sector agencies have limited resources devoted to managing change and improving the capacity to manage for results.

Control of Corruption

The Control of Corruption index captures perceptions of the extent to which public power is exercised for private gain, from petty to grand forms of corruption, as well as how elites and private interests hijack the state.

There is a slight improvement in the perception index from -0.18 in 1996 to -0.15 in 1998 (Table 8). After 1998, there was a steady decline until reaching -0.81 in 2006, with the years 1998 to 2000 exhibiting particularly dismal showing. Such decreasing trend in the perception index also happened from 2008-2010 after improving its index to -0.70 in 2007. From 2010-2013, the index improved by 0.40 points before it reached -0.44 in 2014. Overall this points to a decreasing confidence on the ability of the government to fight corruption, although improvements took place in recent years.

Table 8: Control of Corruption Index of the Philippines: 1996-2014



Another perennial problem, corruption permeates in all levels of governance, from local to national, from petty to grand, from bureaucratic to political (Brillantes and Fernandez 2010; Quah 2010). This connects to the plight of civil servants noted earlier (supra. Government Effectiveness), who face exhausting work for petty pay. Opportunities for graft and corrupt practices also abound in the government, stemming from the inefficiencies found in basic public and social services delivery and in the performances of their duties and functions (Brillantes and Fernandez 2010, 89).

Five factors are identified as causes of corruption in government: low salaries for government employees; extensive red tape; low risk of detection and prosecution; excessive importance on family and debt of gratitude (utang na loob); and lack of political will (Quah 2010).

Recent high-profile cases demonstrate the severity of this problem. Two of the most glaring examples involve former presidents Joseph Estrada and Gloria Arroyo. Estrada was impeached in 2001 and convicted 2007 on the charge of

plunder, while Arroyo has been under hospital arrest since 2012 for supposedly misappropriating public funds. The Priority Development Assistance Fund scam, or the Pork Barrel scam, exposed in 2013, implicated several members of Congress for embezzling pork barrel funds in an elaborate scheme that involved “ghost projects” and bogus Non-Governmental Organizations (NGOs). There are also the allegations of corruption against incumbent Vice President Jejomar Binay for receiving kickbacks from the over-priced construction of a government building in Makati City during his tenure as mayor. The Office of the Ombudsman, headed by former Supreme Court Justice Conchita Morales, dismissed several government officials due to charges of graft and corruption, including Chief Supt. Raul Petrasanta, a personal friend of the president, for the alleged sale of AK-47 assault rifles to NPA rebels in Mindanao; Makati Mayor Junjun Binay, son of the vice president; and Capiz Gov. Victor Tanco Sr., one of the president’s staunchest allies (Ramos and Gamil 2015).

There had been attempts by government to eliminate, or at least curb, graft and corruption from within. Some 40 policies and legislations had been enacted since 1930 and 20 bodies had been formed since 1950 specifically to combat graft and corruption (Brillantes and Fernandez 2010, 91-2). CSOs and NGOs, such as the Transparency and Accountability Network (TAN) and Transparency International Philippines, have also been persistent watchdogs (Brillantes and Fernandez 2010, 92-3).

Two important mechanisms are freedom of information and whistleblower protection. Both systems have yet to be formalized, let alone institutionalized, and bills pushing for either have languished in Congress.

Whistleblower protection aims to encourage, incentivize and protect whistleblowers, informants and witnesses, while freedom of information will allow any Filipino citizen to ask any government agency or instrumentality for any information related to official acts, transactions, or decisions, as well as government research data used as a basis for policy development (Official Gazette 2015). The bill is currently awaiting second reading at the Senate (Official Gazette 2015).

In particular, there seems to be progress in the case of the notoriously corrupt Bureau of Customs (BOC). A report by the BOC Intelligence Group noted that corruption has been “a fact of life” at the agency, with BOC personnel routinely accepting grease money from smugglers and other unscrupulous port users (Esplanada 2015). The Customs Modernization and Tariff Act (CMTA) is being pushed in Congress to simplify, modernize, and align the country’s customs procedures and tariff schedules. The bill is awaiting third reading at the Lower

House before being passed to the Senate (Monzon 2015). Computerization, modernization and increasing transparency of customs administration are also seen to change the “fact of life” that is corruption at the BOC. (Llanto et al 2014).

Harnessing Information and Communications Technology for Efficiency, Transparency and Accountability

When the United Nations conducted an e-government survey for the first time in 2003, the Philippines ranked 6th out of 191 countries in electronic participation. After eleven years, the country’s ranking slipped to 51st while the government’s overall E-Government Readiness ranking plummeted from 45th to 95th place. This reflects the lack of a sustained program to integrate ICT in delivering government services.

The government continues to step up the re-tooling of its institutions to compete in a continuously globalizing world. There have been some notable successes in this field, such as the Open Budget Initiative of the DBM, which provides detailed and updated information on public sector collection, allocation, and spending. This year, the country received the highest score on budget transparency in the ASEAN region and was ranked 21st in the world for transparent and open budget management (Kshetri, N. 2013). The Department of Trade and Industry (DTI) is also migrating to a more efficient digital way to monitor prices of basic commodities and is adopting a cloud-based system for its office productivity.

There are encouraging innovations from some local governments that should be replicated, such as the use of electronic terminals, online billing and payment, mobile payment and Geographic Information System (GIS) technologies deployed by Valenzuela City in an effort to simplify, speed up, and streamline their local permit application processes. The result was an increase of more than 113% in new business registrations since 2004 and increasing local tax revenues by more than 11 times the investment on the GIS.

As government increases the adoption of ICT to improve the delivery of government services, a solid cybersecurity mechanism to prevent cyberattacks must be developed. In 2014, the Department of Justice (DOJ) recorded 614 cybercrime incidents. Hacking of government websites is common. The government must work closely with the technology industry in building a robust and trustworthy digital environment.

The transformation into a technology empowered bureaucracy will need an independent, transparent and accountable government body to ensure the

implementation of game-changing ICT policies and solutions. House Bill No. 6198, which aims to create a Department of Information Communications Technology (DICT), will establish a primary government entity that will be equipped with enough resources and capacity to effectively coordinate the implementation of ICT-enabled services, programs and projects that are critical for both national and local government.

Conclusion and Policy Recommendations

The wide range of issues and problems in governance might overwhelm the next administration. This paper summarizes the key challenges and notable areas of both potential and actual progress in Philippine governance. Most of the challenges are admittedly deep-rooted and systemic: a captured and vulnerable state, an inefficient and unmotivated bureaucracy, a cumbersome regulatory regime, a sorry state of rule of law, and an epidemic of corruption. But there are solutions to these, as evidenced by the potential and actual successes. It is now imperative that specific solutions be immediately formulated and implemented to make a bigger dent in the country's good governance agenda. Specific solutions include the following:

There should be continued support for extant policies on good governance, especially those that improve both government efficacy and public trust and confidence. The BUB Process has to be expanded to include inter-local and national projects, which means heightened coordination among national and local agencies and constituencies. CPA should be steadily institutionalized as a standard procedure in all future government projects. The MITHI should be further empowered not only to cover the computerization of government agencies, but also to electronically connect them efficiently and effectively with better systems and infrastructure. The enforcement of the GPRA must be aggressively pursued through enhanced oversight of agential and local procurement, the establishment of an independent and autonomous complaint appeals body, and the institutionalization of prequalification procedures.

In terms of voice and accountability, the ultimate goal is to break the monopoly of power by dominant socioeconomic classes and political dynasties that have long hijacked the Philippine state. A plausible first step is instituting a mechanism that could democratically finance electoral campaigns. This could be done by direct public financing or by the collection of all campaign donations into a common pool for equitable distribution among all candidates, from local to national. An

anti-dynasty law must also be enacted to prevent blatant perpetuation of power by political clans, but must be clarified so that unnecessary disenfranchisement would not occur.

To improve the country's political stability, the next administration should reinvigorate its negotiations with both the Muslim secessionists and Communist rebels. For the former, this means the inclusion of other groups, such as the MNLF and BIFF, into the negotiating table, and the sincere review and passage of the BBL. For the latter, this means the clarified implementation of the 2007 Amnesty and the call for peaceful negotiations. In both cases, hostilities between government and rebel forces must end, with government making the initiative.

To energize the bureaucracy, the basic salary schedule for public servants, as defined by the Salary Standardization Law (SSL), should be increased across all salary grades. As the Fourth Iteration of the SSL still awaits passage in Congress, and with the current session about to end, it is up to the next administration to see to its passage. However, the proposal should also be reviewed so this iteration would approximate the needs of the employees and the competitive standards of the private sector for the next number of years. At the same time, the mechanisms for performance evaluation and incentivization should be institutionalized with stricter standards of merit and performance and higher rewards so that civil servants are both forced and motivated to perform better.

The government can reduce regulatory burden and improve regulatory quality. This can be done by establishing a formal and requisite Regulatory Management System. It can pursue a policy of requiring Regulatory Impact Assessment for each and every level and agency of the government and not for sector regulators alone.

Any regulation from the next government regarding ICT must take into account the convergence of communications technologies and incorporate principles of technological neutrality and open-access. Policy and legal frameworks that facilitate trusted computing, such as regulations on privacy, data protection and cyber security, need to be in place for the benefit of all users, public or private.

Several reforms had to be instituted to improve the rule of law. To avoid conflict of interest in cases where police, military, or even civilian government officials are implicated, the Office of the Solicitor General must be independent from the DOJ. A reorganization of the AFP and the PNP may also be in order, to maximize the limited personnel and equipment these uniformed services currently have.

Lastly, the next administration should also work for the passage of critical laws that will strengthen anti-corruption mechanisms. The Freedom of Information

Law and the Whistleblowers' Protection Act would provide better power to combat corruption. The first would provide for fuller participation and cooperation of the Filipino citizenry in upholding accountability in the government. The latter would provide Filipino citizens who are willing and ready to expose wrongdoings the necessary protection and incentives. A bill similar to the Whistleblowers' Protection Act may also be considered to cover other crimes and abuses, so that victims of such injustice may also be encouraged to report and testify.

This paper is not an exhaustive list of issues and challenges besetting Philippine governance and corresponding solutions. It can serve as a primer for the new administration, who, with the people's mandate through elections, should have the authority, the capability, and the tools necessary to implement sweeping and effective reforms on how it governs the country's 100 million-strong population.

¹ The local civil society include nationally-accredited civil society organizations, women's groups, nationally-recognized basic sector organizations, and local business associations. In cities and municipalities where indigenous peoples (IP) constitute over 20 percent of the population, one CSO representative must come from the IP sector.

² As per Joint Memorandum Circular No. 4 was issued by the DBM, DILG, DSWD, and National Anti-Poverty Commission (NAPC), issued November 2013.

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Decentralization Policy Reform Agenda for Local Development

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Decentralization in government is not an end but a process leading to good governance. Structural and policy reforms geared towards decentralization can be classified into four categories: political, administrative, market, and fiscal. The results of such reforms can lead to improvements in local governance, delivery of services, allocation of fiscal resources, and promoting public participation (Brillantes and Cuachon 2002).

There are two directions in which such reform can proceed. One way is the minimalist direction, or closing the capacity gap by limiting local authorities to their core business functions and limiting their ability to undertake these functions in a fiscally irresponsible way. The other way is the application of avant-garde management principles and financial disciplines at the local level. This may enable councils to play a more catalytic role in the economic and social development of their communities. A more activist approach to local government reform may seek to build on these developments to enhance the capacity and discretion of local authorities to take on more functions, engage community participation to a greater degree in their decision making, and play a more significant role in the delivery of the central government's domestic policy agenda (Dollery and Wallis 2001).

Elected local government is but one element of what has become known as local governance, a term which seeks to capture the shift away from a system in which local authorities were the key actors in their localities to one where decision-making authority and service provision is shared among a range of agencies. Local authorities are increasingly working alongside other public, private and voluntary sector organizations in providing services for a locality (Pratchett and Wilson 1996).

Appropriate governance is essential to implementing agreed-on goals and facilitating and institutionalizing new norms of practice and performance – both

key elements in meaningful reform. Altering incentives through formal structures will improve performance only if the changes are made in a way designed to affect how informal authority influences the behavior of subordinate managers and primary workers. To improve program performance or to change core organizational practices, it may be necessary to make changes in governance within a comprehensive framework designed to change core values and commitments (Lynn, Heinrich and Hill 2000).

Decentralization, as mandated by Republic Act No. 7160 or the Local Government Code of 1991 (LGC), involves the transfer of both responsibility and resources for several functional areas from national government agencies to local government units (LGUs). Eighteen years after its implementation, complete devolution of identified responsibilities has not yet been accomplished due to various reasons. These policy notes will cover the devolution of four sectors, namely, environment and natural resources (ENR), health, social welfare and development (SWD), and agriculture. The outcomes of devolution in these areas have been culled from various studies and literature on decentralization. Finally, suggestions and recommendations were consolidated.

It has been almost a quarter of a century now since the Code was made into law. Ever since then, there had been victories for local governments all over the country. But there had also been defeats, with LGUs that still suffer from the same problems before the Code was even made. Thus, this paper reviews the decentralization and local governance efforts in the Philippines since the inception of the LGC.

To be specific, the paper will tackle how decentralization in the Philippines affected finance and revenue administration, expenditure management, regulatory quality, development planning, social services delivery, human resource development, performance management, and inter-governmental collaboration of local government units. The goal is to assess the progress of Philippine decentralization, to identify persistent problems, and propose solution to those problems.

Before proceeding into the review of decentralization in the Philippines, it is important to discuss the official policies regarding decentralization.

Policies of Decentralization

The 1987 Philippine Constitution has mandated in Article X (Local Government), Section 2 that the local government units “shall enjoy local autonomy.” The same

provision stipulates, “Congress shall enact a local government code which shall provide for a more responsive and accountable local government structure instituted through a system of decentralization” (Art. X, Sec. 3). Article X also provides for local governments the powers of local revenue generation and taxation (Sec. 4), and equitable shares in both the national internal revenue (Sec. 5) and national wealth and development that could be found within their respective jurisdictions (Sec. 6).

Table 1: Devolved Functions and Key Features of the 1991 Local Government Code

Devolved Functions	Key Features
1. Delivery of basic services	<ul style="list-style-type: none"> • Health (field health and hospital services and other tertiary services) and social services (social welfare services) • Environment (community-based forestry projects) and agriculture (agricultural extension and on-site research) projects and public works undertakings (locally funded) • Education projects (school building program) • Tourism activities (facilities, promotion, and development) • Telecommunications services and housing projects (for provinces and cities); and other services like investment support
2. Responsibility to enforce certain regulatory powers	<ul style="list-style-type: none"> • Reclassify agricultural lands • Enforce environmental laws • Inspect food products and imposing quarantines • Enforce a national building code • Operate tricycles • Process and approve subdivision plans • Establish cockpits and holding cockfights
3. Increase financial resources of LGUs	<ul style="list-style-type: none"> • Broadens their taxing powers • Provides them with a specific share in the national wealth exploited in their area (e.g., mining, fishery, and forestry charges) • Increases LGU share in the national internal reventaxes, i.e., internal revenue allotments (IRAs) from a previous low of 11% to as much as 40%
4. Legitimize participation for civil society in local governance	<ul style="list-style-type: none"> • Allocates to NGOs and POs specific seats in local special bodies, which include local development councils, local health boards, and local school boards • Promotes local accountability and answerability through recall and people’s initiative
5. Authorize entrepreneurial and development activities by LGUs	<ul style="list-style-type: none"> • Provides the foundation for LGU to enter into build-operate-transfer (BOT) arrangements with the private sector, float bonds, obtain loans from local private institutions

Source: Local Government Code of 1991; Brillantes, A. B., Innovations and Excellence in Local Governance: Understanding Local Governments in the Philippines, UP National College of Public Administration and Governance, Quezon City, 2003; cited in Brillantes & Sonco 2011, pp. 359-60.

This mandate was fulfilled in 1991 when the current Local Government Code was passed. Besides establishing the basic organization and operation of LGUs, the Code has provided for them the powers and functions to generate and manage local revenues, implement local policies, exercise police powers, perform devolved functions, deliver local social services, craft and implement local plans, and comply with the provisions of national laws. The table cited on the previous page summarizes the key stipulations of the 1991 Code.

Environment

In a devolved setting, the Department of Environment and Natural Resources (DENR) shall prescribe the conditions for environment and natural resources obtained in the jurisdiction of all LGUs. The agency is tasked to set the methods and procedures for ensuring good governance of environment and natural resources, including technical processes that need to be observed. DENR shall recommend the processes for how LGUs might develop a program of action to achieve prescribed conditions of their environment. Moreover, the DENR is assigned to monitor LGU performance and compliance with national policies and standards and how LGUs conduct the prescribed methods and procedures for governing environmental amenities and natural resources.

LGUs, on the other hand, are assigned to perform various functions devolved from the DENR. Under the LGC, provinces are authorized to enforce forestry laws limited to community-based projects, pollution control law, small-scale mining law, and other laws on the protection of the environment. Provincial governments can establish mini hydroelectric projects for local purposes. On the other hand, municipalities are tasked to implement community-based forestry projects that include integrated social forestry, programs and similar projects. They are also mandated to form environmental management systems and solid waste disposal system; to manage and control communal forests with an area not exceeding 50 square kilometers; and to establish tree parks, greenbelts, and similar forest development projects. The barangays are expected to provide services and facilities related to general hygiene and sanitation, beautification, and solid waste collection.

Various studies in the decentralization of ENR functions time and again however point out to serious conflicts and gaps in the devolution of functions mandated by the LGC of 1991. Compared with the other provisions, the ENR (and public works) provisions of the LGC are not as explicit and as clear. In many

occasions, national government agencies still maintain the power to control, supervise, and review many of the supposedly devolved services even as LGUs are held responsible for them, resulting in confusion, overlaps, and duplication of functions. The accomplishments and state of decentralization in the ENR sector have been described as at best “partial” and at worst “miniscule” and “insignificant” and hardly able to involve the bulk of functions stipulated in the LGC (League of Municipalities, 2006).

Challenges in human resource, financial, organizational and political capabilities and resources had hampered the effective involvement of LGUs in ENR efforts. For one, the resources and personnel transferred to LGUs were not commensurate to the cost of the devolved functions. It is estimated that provinces absorbed 45.6 percent of the total cost of devolved functions, municipalities 47.4 percent, cities 7.0 percent, and barangays 0 percent. In contrast, the shares of LGUs in the Internal Revenue Allotment (IRA) are provinces 23 percent, cities 23 percent, municipalities 34 percent, and barangays 20 percent (Manasan 2002). Among government agencies, the DENR has the lowest number of personnel devolved to LGUs at around 4.2 percent (ADB and World Bank, 2004).

The findings of the National Capacity Self-Assessment Project of the Government of the Philippines, United Nations Development Program (UNDP) and Global Environment Fund (GEF), suggested that most LGUs currently have low capacities to address environmental matters relating to, climate change, biodiversity conservation, land degradation, and drought (GOP, UNDP, GEF, 2005; LMP, undated). LGUs have to face both lack of personnel and technical capacity since specialized knowledge and skills, as well as experience (e.g. in cadastral survey, environmental planning) were largely lodged in the staff bureaus at the central office (Gonzales as cited by Manasan 2002; Brillantes 2009). Personnel transferred did not assume the inherent functions (e.g., Community Development Officers) for the LGU. Furthermore, support mechanisms such as Information, Education, Communications (IEC), financial assistance, and infrastructure & facilities are lacking. In several instances, functions supposedly devolved already reverted back to national DENR offices. Lastly, a monitoring scheme to determine status of devolved functions is absent.

At the institutional level, it has been observed that instead of assuming a support role, national agencies still intervened in the way LGUs managed implementation of devolved tasks, policies, and programs (LMP, 2006). The lack of a clear prevailing regulatory framework permitted and encouraged the existence of a two-track delivery system, where both national government agencies and LGUs can initiate devolved activities (Manasan 2002). In addition to international commitments,

numerous environmental laws and issuances have engendered policy conflicts. There was an instance where a protected area intended for mining development was at the same time claimed as an ancestral domain (Brillantes 2009).

Fortunately, despite these challenges, LGUs were able to effectively absorb some ENR functions. The DENR points out that of the eight devolved functions identified, “regulation of fishing in municipal waters” and “Ecological Solid Waste Management (ESWM)” were perceived as successfully and effectively performed by LGUs (DENR, 2008). Successful efforts to protect and sustainably use environmental assets (like water bodies, parks, seascapes and landscapes) and natural resources (like forests, fisheries, minerals, soils, water, and renewable energy) have been initiated by LGUs and recognized by award bodies such as the Galing Pook Awards. Generally, however the absorptive capacities of LGUs vary due to factors that include uneven commitment and capacities.

The LGC mandates that LGUs receive 40 percent share of such collections. LGUs, however, have experienced delays and non-release of their mandated shares of natural resources fees and taxes collected by the national government (Manasan 2002). In the case of the Malampaya natural gas project in Palawan, the province has not yet received its due despite the project being in operation since 2001.

Recognizing that there is much to be done, LGUs, civil society, the national government, as well as the academe are pushing towards further devolution of ENR functions in accordance with the letter and spirit of the LGC. Enumerated are ENR functions that warrant further devolution:

According to the League of Municipalities (LMP), the tasks of forest management, protected area supervision, land registration, water resource management, mineral resource development, and environmental impact assessment should be devolved to the LGUs within the next six years.

Within the next 12 months, local governments are expected to regulate and develop natural forests and forestlands within the jurisdictions of the LGUs. Local forest management will cover old growth, residual and plantation forests and pasture lands in the public domain, in accordance to existing regulations and standards of management prescribed by law.

The local government units can supervise protected areas by administering declared and enacted protected areas having portions of their boundaries found within the jurisdiction of LGUs. For protected areas that extend to more than one LGU jurisdiction, they shall be administered jointly by all hosting LGUs.

Within the next three years, the services of land registration and mineral resources development will be devolved. All processes and procedures to register

lands shall be regulated by the LGUs within whose area and jurisdiction the land is located. The principal repository of patents and titles shall be the LGUs, with official copies deposited in the National Statistics Office.

Under devolution, water resource management shall be subject to the principal authority and regulatory supervision of LGUs. Subject to procedures, standards and specifications to be issued by the national government, LGUs shall create multi-sector Water Regulatory Boards to ensure the water security of their citizens.

The localization of mineral resource development and environmental impact assessment (EIA) is expected within six years. In a decentralized environment, the final approval for all mineral extraction activities – at any scale – shall be reposed on LGUs, subject to check-and-balance standards and procedures to be set up by competent national authorities or by law. On the other hand, all EIA processes and certifications shall be reposed upon LGUs (singly or jointly) where a subject development project is to be located.

Several conditions need to be met in order to ensure that the goals of decentralization of the ENR functions are accomplished. These include the consolidation of policy and the policy direction, the clarification of roles and relationship of both LGU and DENR (and also among LGU levels) in ENR matters, appropriation of adequate resources, and capacity building and development.

In terms of policy and policy direction, there is clearly a need for both the national government and LGUs to renew their commitment to decentralization and pursue further devolution in line with the LGC. First on the agenda should be clarification of the policy, as well as the respective roles of National Government Agencies (NGAs) and LGUs in ENR. Because the LGC was not very explicit and clear about the delineation of roles as well as administrative matters, all the agencies, as well as local government units involved in ENR need to sit together and finalize the direction and the manner with which they shall proceed.

In line with reinventing government principles advanced by Osborne and Gaebler in the book *Reinventing Government*, the LMP strongly advocates for a “steering” role for the national government and a rowing role for LGUs. They propose that DENR should shift from its current regulatory mode to a development mode and that DENR relinquish control of LGUs in the devolved areas.

For them, the “steering” role of national government and DENR includes the following: (1) Policy determination and international relations; (2) Setting of guidelines and standards; (3) Generation of knowledge and technical information; (4) Implementation of national-level programs; (5) Monitoring and evaluation of

ENR policies, programs; (6) Resource allocation for ENR; and (7) Accreditation and certification of LGUs and ENR personnel.

On the other hand, there is a preference for strengthening regional offices of DENR. Under the premise that regional offices may be able to better monitor, assist, and provide the necessary technical guidance and support to LGUs, existing Regional Offices of the DENR should be converted into Regional Technical Centers to support and monitor LGU ENR functions within the region. They shall derive technical guidance and assistance from DENR bureaus and perform the following roles (LMP, 2006): (1) Technical support; (2) Oversight and monitoring; (3) Coordination and liaison with ENR Bureaus; and (4) Personnel training.

LGUs are expected to “row” by translating national policies to local needs as well as managing devolved tasks. The proposed role and functions of LGUs include: (1) Policy implementation through adoption of national policy in local development and program/project formulation; (2) Adoption of local policies and legislation in accordance with national policy and local priorities; (3) Administration and regulation of devolved functional areas; (4) Generation of funds for local ENR operations; and (5) Serving as partner in the implementation of national programs in their jurisdiction.

The difficulty of addressing ENR concerns with an area-wide impact not divisible by local boundaries (e.g. soil erosion, water quality deterioration) as well as the demonstrated success of inter-LGU cooperation has led to proposals in formalizing this mechanism and coming up with inter-LGU organizations and higher level regional bodies (Elazegui, undated).

LGUs will benefit in the establishment and strengthening of inter-local cooperation especially in common service areas such as environmental governance, integrated area planning, information and communications technology adoption, procurement, human resource development, and financial management (Magno, 2009).

Of course, given the current limitations of the LGC, there is a need to set the appropriate policy framework and guidelines for inter-local cooperation. This will guide LGUs who wish to enter into inter-LGU arrangements as well as make inter-LGU arrangements binding and less susceptible to sudden changes in people or priorities of sitting officials.

In order to maximize resources as well as improve coordination and overall management, there is a need for a more rationalized organizational set-up with minimal overlap and duplication of roles. LGUs, through the LMP, are advocating for the management of ENR offices at the provincial, city, or municipal level. Provincial Environment and Natural Resource Offices (PENROs) as well as City

Environment and Natural Resource Offices (CENROs) should be placed under supervision of LGUs (LMP 2006). Initially, DENR personnel transferred to LGUs should be funded by the national government for 5 years, and then absorbed by the LGU on the 10th year (LMP 2006).

Health

Provinces are mandated by the LGC to provide health services that include hospitals and other tertiary health services. Municipalities are tasked to provide services which include the implementation of programs and projects on primary health care, maternal and child care, and communicable and non-communicable disease control services; access to secondary and tertiary health services and purchase of medicines, medical supplies, and equipment needed to carry out the services. Barangays are tasked to render health and social welfare services that include the maintenance of barangay health centers and day-care centers.

Grundy, Healy and Sandig point out that the devolution of health care services (HCS) has three main goals. The first goal is to increase the resource base for primary care, by moving resources from the center to peripheral locations. The second goal is to improve the responsiveness of authorities or local officials to local health needs and situations by broadening the 'decision-making space' of middle and lower level managers. The third goal is to enhance the efficiency and effectiveness of health services by bringing management closer to the recipients for prompt action (Grundy, Healy and Sandig, 2003). The results of the devolution of HCS have been mixed so far.

A three-country study found that based on set criteria, the Philippines demonstrates one of the most extensive levels of decision-making in an administrative sense relative to Indonesia and Vietnam. There is evidence, however, to suggest that decision-making often can be constrained by: a) politically-based priority setting of local officials, which at times are viewed by health managers to be in conflict with priority-setting based on health needs; and b) low availability of funding limits the capacity of middle-level managers to exercise decision-making powers (Grundy, Healy and Sandig, 2003).

In terms of efficiency and effectiveness, perceived results are mixed, with some studies suggesting improvements in service and others suggesting a decline. Devolution has resulted in numerous challenges. For example, the perceived limitations to mobility (in terms of promotion) of devolved personnel as well the decline of number of scholarships for health workers have affected morale.

Coordination and referral among health units have also suffered. Some LGUs ride on the availability and proximity of hospitals and other health services in nearby LGUs. The inability of some provinces to cope with the high costs of maintaining tertiary-level hospitals has led to the renationalization of several hospital facilities. Corruption, especially in the procurement of medicines and other supplies, continued in a localized setting (Liga ng mga Barangay 2006).

Similar to the ENR sector, the most often cited impediment to the effective devolution of the health sector is budget constraints (Brillantes 2009; Magno 2001; Mankila 2006; Liga ng mga Barangay 2006; Ferrer, 2006). Although there has been initial nominal increase in the funding for health services by LGUs after they received their IRA allocations from 1995 to 1998 (Schwartz, Racelis, and Guilkey 2000), the budget allotted for devolved health services through the IRA is not commensurate to the cost of the devolved functions (Magno 2001; Mankila 2006). Furthermore, LGUs in general heavily depend on the IRA and have been unable to generate enough revenues to cover operational costs. Despite LGC provisions on revenue generation, Asian Development Bank (ADB) according to Mankila, reports that in 2006, revenue collection accounted for less than 10 percent of total expenditures in HCS among LGUs. Some studies also suggest that there is significant underspending by LGUs for health services as LGUs shift priorities (Magno 2001). Financing shortfalls in some cases has resulted into the diversion of health funds to other priorities.

The impact of resource constraints in health services is deep. For one, the limited resource base has been cited as a major impediment in the decision-making process of local health managers (Grundy, et. al 2003). There are reports of short supplies of medicines, equipment, and a perceived decline in health care in some cases. Several localized hospitals devolved to LGUs have been renationalized. Local health workers are also complaining about low wages and not receiving the commensurate salaries and benefits due to non-compliance of some LGUs with the Magna Carta for Health Care Workers as well as the Barangay Health Workers Benefits and Incentives Act.

Some LGUs fund the additional wages and benefits of health workers from savings, a practice that does not guarantee proper compensation and is contrary to law. Scholarship programs for health workers, which were widely available prior to decentralization, have also been scarce. As thousands of nurses and other medical personnel leave the country, LGUs are finding it increasingly difficult to retain health workers.

Despite challenges, there is a general push for greater devolution of health services in accordance with the LGC. In 2006, the League of Barangays

prepared a position paper pushing for further devolution accompanied with the corresponding resource, technical, as well as capability support from the national government (Liga ng mga Barangay 2006). They are proposing the following: (a) Localization of programs such as malaria control, leprosy, filariasis and schistosomiasis eradication within the next six years; (b) Assumption of cities and municipalities of regulatory functions such as the issuance of permits to drug stores, dental and medical clinics of these establishments within the next 2 to 3 years; and (3) Maintenance of a health information and surveillance system that will immediately attend to the situation at the ground level.

The return to local control and management of renationalized hospitals, particularly those categorized as primary and secondary hospitals (the national government, on the other hand, should retain existing national hospitals and other training hospitals with tertiary capabilities) is also a devolution priority.

There are also demands to devolve public health service provision in terms of personnel management, capacity building, institutional organizational development, financial management, and governance and participation.

A major question, however, is whether the Department of Health (DOH) is prepared and whether LGUs are capable of further absorbing these functions given their current status. Many LGUs presently face common problems. These include resource constraints in construction and improvement of health facilities, health workers' benefits; inefficiency and politicization in the management of some resources for public health, like medicine procurement; and the general lack of local government health personnel and facilities (Atienza, 2004).

Health concerns transcend political and administrative boundaries and coordination is necessary among health units. Magno points out that devolution has aggravated the lack of coordination between LGUs and resulted in free-riding and negative externalities (Magno 2001). LGUs need to develop a system of collaboration and referral among the different levels of government health-service providers to attend to the needs of their constituents. Devolution requires redefinition of the functional relationship between regional offices and LGUs in the provision of technical assistance and the setting of standards (Liga ng mga Barangay 2006).

Grundy, et al. found that in the Philippines the health referral system lost cohesion after devolution. Specifically, logistics, transport, patient referral protocol, and distinctions between levels of service were all disrupted by the unclear arrangements regarding local government cooperation as well as under-financing. This is consistent with findings in other research that show that 'grey areas' of responsibility as well as lack of preparation, complicate efforts to come

up with a rational arrangement for health services in the process of devolution (2003).

While there are the prospects for health service delivery devolution, the DOH still faces major hurdles to full localization. There is difficulty in integrating health services because of separate administrative controls. This stems from several problems such as the disconnection in the information management between national and local units; inadequacy in distributed health resources; gap in the referral networking system; non-maximization of regulatory powers; and the absence of financial leveraging mechanisms. Government agencies (e.g Health Intelligence Service-DOH and Philippine Council for Health Research and Development-Department of Science and Technology) are anticipated to strengthen inter-agency cooperation on various aspects of health research.

The proposals are:

- Establish and strengthen inter-local health systems and their subsystems (integrated health planning, referral system, health information system, drug management, human resource development, and financial management).
- At the barangay level, some LGUs have effectively employed a clustering strategy. Galing Pook winner, Cotabato Office of Health Services, grouped its 37 barangays into seven clusters with each cluster under the supervision of a coordinator to simplify the task of supervision and monitoring and allow them to immediately respond to the concerns of the barangays within their jurisdiction. (PIDS 1998).
- Institutionalize information public information units down to the barangay level to improve the gathering of health intelligence/statistics. Incorporate and support a computer network for health information and surveillance, referrals and logistics (Liga ng mga Barangay 2006).
- Develop a policy and program to consolidate all emergency medical services in the country with regard to disaster preparedness (Liga ng mga Barangay 2006).
- Develop a system of collaboration and referral among the different levels of government health-service providers to attend to the needs of their constituents (Liga ng mga Barangay 2006).
- Redefine the functional relationship between regional offices and LGUs in the provision of technical assistance and the setting of standards (Liga ng mga Barangay 2006). The role of the regional health office is limited to managing the regional hospitals and assisting the national agency in the implementation of public health programs (Magno 2001).

According to the 7th Rapid Field Appraisal (RFA) conducted by the Associates in Rural Development/ Governance and Local Democracy (ARD/GOLD), Local Health Boards are not yet fully functional in many areas. Efforts should be made to assist LGUs in activating their local boards. The mandate and functions of local boards should be reviewed and communicated to localities through more creative information, education and communication (RFA as cited by Brillantes 2009).

Furthermore, DOH Field Offices and the Population Commission's Provincial Offices are not yet geared to provide technical assistance to LGUs (ARD/GOLD as cited by Brillantes 2009).

The municipalities also urge the review of the National Health Insurance Act to make it more responsive to the needs of the urban and rural poor. The LGUs also see that the impact and effects of devolution on health services should be evaluated once every three years in a Health Summit attended by all stakeholders. They also emphasized the importance of providing greater power to the local health board.

The success of localizing public health service provision is highly dependent on the readiness of LGUs to absorb the management of a devolved health system. It is important to strengthen health systems to make devolution work.

Social Welfare

The LGC devolves to provinces the implementation of social welfare services that include programs and projects on rebel returnees and evacuees, relief operations, and population development services. Municipalities are expected to provide social welfare services, such as programs and projects on child and youth welfare, family and community welfare, women's welfare, and welfare of the elderly and disabled persons. They also manage community-based rehabilitation programs for vagrants, beggars, street children, scavengers, juvenile delinquents, and victims of drug abuse; livelihood and other pro-poor projects; nutrition services; and family planning services.

The initial outcome of the devolution process is the restatement of the Department of Social Welfare and Development (DSWD) mission. The new mission statement highlighted the need to build partnerships with local government units, non-governmental organizations and people's organizations in social welfare and development and service delivery.

Devolution required the agency to restructure. Shifts of tasks from Sectoral Bureaus to Functional Bureaus at the Central Office Level ensued. Fourteen

Field Offices as extension units of the Office of the Secretary with focus on field monitoring and technical assistance were also established.

The devolution called for an increased role of LGUs in collaboration with the national office in social welfare and development (SWD) Policy and Plan Formulation, Social Technology Development, Standard Setting and Compliance Monitoring, Technical Assistance and Resource Augmentation, Institutional Strengthening and Management.

Even though the devolution of DSWD resulted in several restructuring of the national agency to accommodate local needs, the Department still confronts several challenges.

First, SWD concerns are given lower priority in local development plans (Magno, 2009; Brillantes 2009). As a result, allocation of resources for SWD programs, projects, and activities had declined since devolution. The ADB and World Bank (WB) found that LGU contribution to overall SWD expenditures have gone down from 11 to 10 percent despite the fact that 60 percent of DSWD personnel were devolved (ADB and WB 2006). The gap between actual need and funding is especially visible in low-income municipalities (Brillantes 2009).

Second, LGUs tend to prioritize infrastructure development over total human development (including increased capacity of people to participate and decide in the allocation of LGU budget). More than fifty percent of SWD expenditures of LGUs are personnel costs of devolved SWD staff, leaving little for SWD programs and projects (ADB and WB 2006).

Third, there is weak compliance with DSWD reports at the local level. Local workers due to their heavy workload do not prioritize program reporting. LGUs are seen as having low appreciation for local SWD reports as bases for effective planning and advocacy for larger share in local resources.

Fourth, there are SWD worker issues that need to be addressed. For instance, the creation of the Municipal Social Welfare and Development Officer (MSWDO) position is not considered mandatory under the LGC. Some municipalities therefore opt not to appoint an MSWDO. Service providers are usually overworked with very low compensation. There is limited Maintenance and Other Operational Expenses (MOOE) support that also limits access to capability building opportunities.

Fifth, laws such as the Juvenile Justice and Welfare Act, Magna Carta for Disabled Persons, and the Senior Citizens Act, among others, are seen as unfunded mandates from the national government (Brillantes 2009).

Sixth, partisan political considerations influence the selection of program beneficiaries particularly during campaign periods.

Lastly, there is lack of facilities and Information and Communications Technology (ICT) resources to accommodate the growing needs of SWD clients.

Much of the resources for programs and projects flow from foreign assisted national programs and projects such as the Countrywide Integrated Delivery of Social Services (CIDSS), and, more recently, the Pantawid sa Pamilyang Pilipino Program (or 4 Ps).

To address the post devolution challenges, DSWD has started various initiatives. These include implementing systematic assistance to local government units through the assessment of their capacity and willingness to invest in SWD programs/ services. This serves as basis for the formulation of DSWD Technical Assistance and Resource Augmentation Plan.

The Department has also initiated the formulation of a national policy framework for social protection to harmonize the initiatives of intermediaries and stakeholders. They also have continuously enhanced the Medium Term Expenditure Plan (MTEP) to secure funding (in the General Appropriations Act) for unfunded social welfare and safety net programs emanating from social legislations. The DSWD Policy and Planning Department also initiated an assessment study of devolved SWD programs and services to determine LGUs' degree of compliance in the implementation (Brillantes 2009).

The DSWD has started working towards the institutionalization of an objective and transparent targeting mechanism to identify beneficiaries of social protection programs at both household and community levels. They have encouraged the participation of intermediaries in standards enhancement and compliance monitoring (i.e. Area Based Standards Network).

The Department created mediums for intermediaries' continuing education and learning across regions (i.e. SWD Learning Networks). They have continuously developed training modules based on the results of competency assessment for DSWD personnel, partners and intermediaries. Social marketing plans in support of sectoral plans and completed social technologies were formulated. Furthermore, the Agency has accessed internal and external assistance to complement the available but limited resources of local government units and non-government organizations to implement SWD programs and services.

Agriculture

Under the LGC, the devolved functions for provinces include agricultural extension offices and on-site research services and facilities, which cover the prevention and control of plant and animal pests and diseases; dairy farms,

livestock markets, animal breeding stations, and artificial insemination centers; and assistance in the organization of farmers' and fishermen's cooperatives and other collective organizations, as well the transfer of appropriate technology.

For the municipality, the devolved functions include extension and on-site research services and facilities related to agriculture and fishery activities. These include the dispersal of livestock and poultry, fingerlings, and other seeding materials for aquaculture; palay, corn, and vegetable seed farms; medicinal plant gardens; fruit tree, coconut, and other kinds of seedlings nurseries; demonstration farms; quality control of copra and improvement and development of local distribution channels, preferably through cooperatives; inter-barangay irrigation systems; water and soil resources utilization and conservation projects; and enforcement of fishery laws in municipal waters including the conservation of mangroves. Barangays are tasked to provide agricultural support services, which include planting materials distribution systems and operation of farm produce collection and buying stations.

According to the Department of Agriculture (DA), the devolution process has had mixed results. Localization trimmed down their technical personnel from 37,000 to a little over 15,000. The devolution resulted in the decrease in the DA's control over the actual implementation of national programs in the field level. Financial resources were limited to target programmed areas that demonstrate higher agricultural production. Furthermore, achieving food sufficiency slowed down due to non-prioritization by local executives.

There are issues and challenges that the DA needs to address in this regard. The nature of decentralization remains unclear. There are questions on the allocation and definition of responsibilities and functional relationships. Linkages in training, research and extension are also seen as weak (Manero as cited by Magno 2001). LGUs and farmer-clientele still depend on the DA at the national level when it comes to technical assistance, provision of planting materials, and provision of animals for production stations and centers.

The devolution of the agricultural sector showed that interests and prioritization of the LGU officials vary (Brillantes 2009). When asked in a survey to assess their level of compliance, barangays responses were leaned towards "seldom" and "never" when it comes to implementing the agriculture mandate of the LGC; municipalities gravitate toward the "sometimes" column; the provinces, in the "always" column. Services such as the provision of livestock markets, animal breeding stations and artificial insemination had similar ratings for both provinces and municipalities in both the "always" and the "never" columns (League of Provinces of the Philippines 2006).

The same set of survey also produced the top ten (10) problems that are “always” encountered by LGUs in performing agriculture related tasks (League of Provinces of the Philippines 2006). These include: financial constraints, financial constraints of clientele, insufficient/delayed transportation allowance, politics, lack of transportation facilities, repayment of loans, dole-out mentality of farmers, marketing, devolution-related problems with the bureaucracy.

As with the other devolved sectors, funding is cited as a major factor in the implementation of devolved functions in the agricultural sector. Funding has not supported devolution as much as it should have. In the case of DA, the central office retained the bulk of the funds despite devolution of a large number of personnel. In 1997, only 6 percent of the budget has been appropriated for DA regional offices despite the expectation that they will absorb the bulk of coordinative, technical, and support functions under devolution (Magno 2001). LGUs also receive low technical support from these regional offices (Siamwalla 2001).

The DA makes available funding for programs supporting national programs and goals. In order to access these funds, however, LGUs have to adjust their local plans to fit the national agenda even when it does not necessarily match local goals (Cabanilla 2006).

Extension workers at the local level do not have the authority to provide policy, allocate extension resources, and monitor the implementation of agricultural extension programs (Brillantes 2009). Devolved agricultural workers are at times assigned lower salary levels compared to employees of the national government and local government units (LGUs). In some cases, they are displaced or assigned to other (non-agricultural) positions, as the municipal agricultural officer position (MAO) is not mandatory for cities and municipalities (HOR 2006; Siamwalla 2001). Unsurprisingly, lack of motivation among the devolved personnel has been observed on several occasions.

Moreover, the plight of a number of extension workers in LGUs is slowly deteriorating because of lack of opportunity for technical trainings, lack of scholarship grants, non-motivation from local leaders, and the politicization of the sector at the local level (Magno 2001; Brillantes 2009; Siamwalla 2001).

Issues in funding, linkages, and personnel have had negative implications on the capability of LGUs to plan manage and address issues in agriculture and fisheries. Local government units are required to prepare both a yearly Food Security Plan as well as a Comprehensive Land Use Plan. In the absence of capable personnel, very few are able to make use of updated methodologies and technology (Cabanilla 2006). In cases of municipalities without a municipal agriculture officer, the responsibility of coordinating agriculture programs may

likely fall on someone without expertise in the field.

LGUs have participated in efforts to assess and set the direction for further devolution of the agricultural sector. Collated results of two self-administered surveys of the Committee on Devolution of Executive Order No. 444 and the League of Provinces of the Philippines (LPP) in cooperation with the Philippine Institute for Development Studies (PIDS), and the Economic Policy Reform and Advocacy (EPRA) Project of the Ateneo de Manila University School of Economics revealed varying levels of compliance.

In order to steer, the DA needs to formulate a National Agriculture and Fisheries Policy and Strategic Plan in consultation with LGUs. This should specify the guidelines, technical assistance, funding and monitoring and evaluation systems that shall guide LGUs in implementing and coming up with agriculture programs and projects (League of Provinces of the Philippines 2006).

Provinces need to come up with their Provincial Agricultural Development Strategic Plan incorporating the necessary guidelines, technical assistance, funding and monitoring and evaluation systems for their component cities and municipalities. Municipalities/cities on the other hand may come up with their own agricultural development strategic plan. An Annual Performance Plan may be developed parallel to these programs (League of Provinces of the Philippines 2006).

The DA and LGUs need to revisit and redefine their mandates. The DA, as a national agency, should shift its focus from commodities (“production”) to “goals” within the framework of Republic Act No. 8435, or the Agriculture and Fisheries Modernization Act (AFMA) of 1997. These goals include: 1) Prosperity of Farmers; 2) Competitiveness; 3) Food Security; and 4) Sustainable Production Systems (League of Provinces of the Philippines 2006).

Plans and programs need to be integrated at all levels from the barangay, to the municipal, city, provincial levels, all the way up to the DA. Bottom-up planning, consultation and participation of the stakeholders are needed. LGUs need to be able to coordinate, collaborate, complement, and consolidate efforts and agree on accountability and resource sharing mechanisms. They must be able to translate national goals and define specific roles and targets for local development programs and projects. LGUs should be able to define their specific roles in rendering appropriate extension service, setting their regulatory scope, formulating their research and development niche, and contributing to information, education, and communications campaigns.

The DA needs to identify viable areas of operation (e.g. province, municipal clusters, etc.) and coordinate accordingly. The LPP pointed out that provinces are

currently the most viable areas or units of operation and recommends that the DA should coordinate at this level.

Local Finance and Revenue Management

LGUs need to allocate and utilize resources from their IRA shares and grants for national and local programs. Funds for implementation must accompany national programs implemented through LGUs. A National Fund Transfer System (NFTS), a funding facility, must be established. This should prioritize those who are in need and allow capable LGUs to “buy into” grants thereby ensuring equitability of resources and incentivizing good performance (League of Provinces of the Philippines 2006).

With regard to local finance and revenue, LGUs have local taxes and fees, share in the national revenues or the IRA, and external sources such as loans/borrowing, issuance of bonds, and private sector participation at their disposal, as stipulated by the Code. Among the three, IRAs have been the most utilized, which accounts for 57 to 68% of the aggregate local finances in the country from 1992 to 2005 (Brillantes & Sonco, 2011,p. 361). At the same time, external sources comprise only 1 to 5% and locally generated revenues constitute 31 to 41% (Brillantes & Sonco, 2011,p. 361).

This trend demonstrates the high dependence of local governments on the handouts given by the national government. Furthermore, the results of the LGU Fiscal Sustainability Scorecard from fiscal years 2009 to 2012 show that an average of 52 of the 80 provinces and 63 of the 121 cities in the Philippines were found to have IRAs comprising of at least 70% of their respective annual regular income (DILG, 2015). It had been argued, then, that such dependence on the IRA has led to local governments becoming demotivated from updating their revenue systems and real property valuations (Brillantes & Sonco, 2011; Manasan 2007). Another adverse consequence of the current IRA system is the unequal distribution of allocations among LGUs, favoring cities over others (Brillantes & Sonco, 2011; Gatmaytan, 2001).

The failure to equalize the revenue streams among LGUs was due to the weak comparison between the actual revenue capacity of LGUs, and their expenditure responsibilities as mandated by the Code and by public demand (Uchimura & Suzuki, 2009; Hofman & Guerra, 2005). The IRA system was also unpredictable in that the allocations could be any of the following: “not appropriated in full,” “not released in full,” “not released on time,” or “effectively cut due to the re-enactment of the [national] budget” (Masanan, 2007, see also ADB 2013). These

result, in part, to the inability of local governments to perform their devolved functions and duties, especially the delivery of basic social services (Brillantes & Sonco, 2011; Manasan 2007).

Partnerships and transactions between local governments and private enterprises are still limited at best. Although local governments can borrow from domestic private financial institutions (Local Government Code, Title IV, Sec. 297), in practice, government financial institutions (GFIs) such as the Land Bank of the Philippines (LBP), and the municipal development fund office (MDFO) have monopolized the market for local governments loans and bonds (Brillantes & Sonco, 2011, p. 361; Gooptu, 2005, p. 58; ADB&WB, 2005). Other areas of possible local public-private partnerships, such as infrastructural build-operate-transfer (BOT) schemes, are also of limited usage and institutionalization (ADB & WB 2005), despite numerous instances of creative local public-private partnerships (Brillantes & Moscare 2002, p. 7).

Local taxation and revenue generation also remain problematic, despite the Code having expanded the tax assignments of LGUs to include real property, transfer of real property, amusement, quarry, business, franchise and community taxes. Again, part of the problem is the LGUs' high degree of dependence on the IRA, foregoing efforts towards proactive local revenue collection. Another is the disparity between tax autonomy and tax administration in the local level. The administration of tax collection has been indeed decentralized, but the LGC itself limits the LGUs from earning marginal revenues and from adjusting taxation parameters, especially tax rates (Manasan 2007, ADB & WB 2005; Taliercio, 2005). Furthermore, 51 provincial and 51 city schedules of tax bases on real property were found to be outdated, thus "missing out" some Php 9.4 billion in revenues for provinces, and Php 20.3 billion for cities from 2013 to 2015 (Department of Interior and Local Government - Bureau of Local Government Supervision [DILG-BLGS], 2015).

Lack of resources is often cited as the primary reason why LGUs are not able to successfully manage devolved functions. When it comes to ENR, it is not unusual for local executives to underfund ENR functions because there are provisions that explicitly provide for it. LGUs have also generally been unable (or ineffective) to generate sufficient resources to augment their IRA allotment and fund their ENR programs despite provisions that allow them to charge user fees and environmental taxes.

LGUs have proposed cost sharing between national and local government for ENR programs. One way is to reactivate the NGA-LGU cost sharing arrangement adopted by the National Economic and Development Authority (NEDA) Board

in 2003. Geollegue has proposed the formulation of a national policy prescribing local budgetary allocations for ENR purposes (Geollegue, undated). Manasan on the other hand has offered a matching grant for ENR management. In this arrangement, the national government can provide LGUs with grants they will match and can use for a specific purpose only (Manasan 2002). They also propose setting a minimum IRA allocation for local ENR functions.

In addition to cost sharing, there is also a push for greater local fiscal autonomy. As the LGC does not impose caps on fees and user charges that may be imposed by LGUs, national government agencies should remove prescribed caps on fees that may be charged by LGUs. As much as possible, NGAs should avoid dictating LGUs on how to use local funds especially for activities that are locally funded (e.g. DBM placed a P900 day cap on budget for training and seminars). LGUs also look forward to regular and automatic release of LGU shares in national wealth and other taxes.

When it comes to health services, there are several proposals brought up to address resource issues. These include recommendations for the national government to share in the financial burden created by the benefits and salaries (i.e. as defined in the Magna Carta for Health Workers) as well as the implementation of, and other non-monetary benefits such as continuing education. DOH or the national government may be requested to provide matching grants to support the enhancement of these services (Lieberman et. al., 2005).

Also recommended is for the percentage of budget allotted to health be raised to 5 percent for national government and for LGUs to peg the IRA for health to a fixed percentage. It is expected that setting health budget as a percentage of budget will compel both the national government and LGUs to allocate budget for District Health System (DHS) and not set it aside as low priority, as have been observed in some cases. It will also protect the budget for health services from being subjected to politically-based diversion or non-prioritization of local officials.

The DOH and the national government should provide greater fiscal autonomy to hospitals to reduce their dependence on direct subsidies from government. One way is to amend auditing procedures for hospitals run by LGUs in order to allow for greater flexibility and innovation in terms of financial management. The current system of the national government hinders innovative and efficient hospital management (8th RFA as cited by Brillantes 2009). Provincial hospitals should be allowed to retain their income as trust fund to enable them to sustain their operations without unduly burdening the national and provincial governments.

The capability of LGUs to generate revenues and manage finance should be developed. So far, LGUs have generally not been able to maximize their taxing powers as well as their authority to impose user charges. Lieberman recommends implementing carefully designed user charges in order to raise funds to sustain health programs and subsidize the health needs of the poor. Pricing, billing and collection systems of devolved facilities can also benefit greatly from technical assistance (PIDS 1998). Of course, LGUs need to improve service quality if they are to charge higher fees.

Expenditure Management

Expenditure management is also adversely affected by the current system in practice. There is an alarming gap between how much LGUs should spend and how much they could actually earn on their own. The only way this gap is augmented for most LGUs is to rely heavily on the IRAs. Such practice has affected not only their capacities for financial management, but also their expenditure management. From 2001 to 2011, local allocations on basic social services declined significantly (ADB, 2014). This compounds the problem of the lackluster delivery of critical social services in the country.

Besides the financial constraints to LGUs, they are also faced with ambiguities on their expenditure assignments. Despite having devolved several functions and services to LGUs, the LGC itself allows the national government those functions and services (Manasan, 2004). In practice and until recently, this provision was abused by national officials, particularly members of the Philippine House of Representatives, as a mechanism for pork barrel funds, which are then used to reinforce patronage between them and the LGUs under their respective geographic jurisdictions (Yilmaz & Venugopal, 2013, p. 246; Brillantes & Sonco, 2011, p. 368).¹ Also, NGAs such as the Departments of Education (DEPED), of Health (DOH), and of Public Works and Highways (DPWH), continued to fund those functions and services at least until 1999 (Yilmaz & Venugopal, 2013; Manasan, 2004). These blurred the line between the expenditure assignments between the national and the local governments.

Transparency and accountability on LGUs' finances and expenditures had also been historically lacking, and continue to be so in some areas. Despite some successful attempts to uphold local governments and their financial and fiscal statements to the scrutiny of non-governmental and people's organizations, as mandated by the Code, these are quite isolated, and the effects are thus quite

limited (Yilmaz & Venugopal, 2013, pp. 245-6). Procurement transparency is also another area of concern, as the lengthy process, effective exclusion of bidders outside the locality, contract price negotiations, and inadequate price monitoring and book-keeping systems often distort the procurement process, despite the enactment of both the LGC and the Government Procurement Reform Act of 2002 (Republic Act No. 9184) (Yilmaz & Venugopal, 2013, pp. 236-7; ADB & WB, 2005, pp. 33-4). Meanwhile, recent years have seen a great deal of efforts by the national government to instill transparency and accountability among LGUs such as the introduction of the Full Disclosure Policy (FDP) by the Department of Interior and Local Government (DILG) in 2010 (Magno, 2015). However, the latest data showed that as of the second quarter of 2014, only 61% of all provinces, 62% of all cities, and 53% of all municipalities in the Philippines have fully complied with FDP (DILG-BLGS, 2015).

The combined problems in local financial and expenditure management had resulted to some troubling trends in recent years. It was found that the majority of provincial, city and municipal LGUs, almost all of which were highly dependent of the IRAs, score at most “average” on DILG - Bureau of Local Government Supervision’s (BLGS) Fiscal Sustainability Scorecard for the Fiscal Years 2009 to 2012. The metric was designed to measure the fiscal performance of LGUs using data on revenue generation capacity (60% of the score), local collection growth (10% of the score), expenditure management (20% of the score), and reportorial compliance (10% of the score). This meant that even with the recent reforms, progress is still slow, and many LGUs have remained poorly performing in their fiscal duties.

Regulatory Quality

Problems were also prevalent with regard to LGUs’ performance of its regulatory functions. For one, and perhaps the result of overlapping financial assignments noted earlier, local governments continue to contest the national government over certain areas of regulation, such as environmental safety and sustainability, while not performing in others, such as agriculture (Brillantes & Sonco, 2011, p. 368).

A much discussed and monitored area of local regulation is business permit and license processing. The experience had been cumbersome, as it was exemplified by the cities of Quezon and Dagupan, where permit releases were delayed due to the excessive number of required clearances and procedures, and

the lack of inspectors that would visually certify the business (Legaspi, 2006, p. 152). It has come to the point where proprietors necessitated the use of bribes towards pertinent local officials to ease the licensing process (Legaspi, 2006, pp. 152 & 154). It must be noted that corruption had been a cause of and a result of the inefficiencies in the performance of duties and functions not only in the area of business licensure processing, but also in other areas, especially social services delivery (Brillantes & Sonco, 2011; Brillantes & Fernandez, 2010; Legaspi, 2006). It is particularly rooted on a complex, interrelated mix of historical colonial heritage, politico-economic patronage, state capture by self-interested elites and officials, mismanagement and underpayment of the bureaucracy, and obfuscating regulatory regimes in all levels of Philippine governance (Brillantes & Fernandez, 2010).

Recent trends move towards streamlining the system of business permit and license processing to fewer processes that could be done in fewer days, which is seen to lessen both the inefficiencies of the process and the chances for corruption (Legaspi, 2006). The WB's Doing Business Reports from 2003 to 2015 had indicated that business permit and license processing 'nationally' was reduced from 17 steps in 49 days, to 16 steps in 29 days (World Bank, 2015). The National Competitiveness Council of the Philippines (NCC), however, noted that the processing in 2015 had been actually reduced to 6 steps in 8 to 15 days (NCC, 2015a). Both instances, however, only cover Quezon City as the national representative. The WB also released data in 2011 for 25 selected cities in the country (including the national representative Quezon City) and it was found that the processing vary from 17 steps in 22 days in General Santos, to 21 steps in 39 days in San Juan (World Bank, 2015). This variation, though, may indicate disparity of efforts among local governments to streamline their processes. Also, inefficiencies in bureaucratic processes still do exist, as indicated by the European Chamber of Commerce of the Philippines (ECCP) in 2014 (de Vera, 2014).

Performance Management

Another area of concern in local governance is performance management, and it is in this area where much progress could be arguably seen. It had been argued that institutionalizing a "well-crafted and functional performance measurement system of LGUs" could improve decentralization in the country, but such has yet to exist (Brillantes & Sonco, 2011, p. 373). DILG has developed in 2014 the Seal of Good Local Governance, a comprehensive performance measurement system

lifted from the Seal of Good Housekeeping that was previously implemented from 2010. The system measures the following criteria: good financial housekeeping, disaster preparedness, social protection for the basic sector, business-friendliness and competitiveness, environmental management, and law and order and public safety (Magno, 2015, p. 27). By December 2014, DILG has managed to assess all of 1,475 target LGUs for review. The review disqualified the 171 LGUs affected by Typhoon Yolanda and 68 LGUs in the Autonomous Region of Muslim Mindanao. In 2015, the Seal was given to 41 provinces, 28 cities, and 185 municipalities in the Philippines (DILG, 2015).

Another extant performance measurement system in the country is the Cities and Municipalities Competitiveness Index, developed in 2014 by NCC (2015b). The Index takes into consideration local government efficiency, local economic performance, and the state of local infrastructure. In 2015, the Index covered 142 out of 144 cities, and 978 out of 1,490 municipalities, while 68 out of 81 provinces were eligible for provincial ranking (NCC, 2015b). Davao del Sur received the highest scores in the Index for the provinces ($i = 41.69$), Manila for all the cities ($i = 52.43$), and General Trias, Cavite for all the municipalities ($i = 45.83$), while the lowest ones were received by Samar ($i = 15.34$), Taguig ($i = 13.27$), and Gandara, Samar ($i = 0.60$), respectively (NCC, 2015b).

Notwithstanding the limits of the two systems, especially on their coverage, the experiences of the Seal of Good Local Governance and the Cities and Municipalities Competitiveness Index have some implications to the local governance in the Philippines. For one, these systems are proof that the performance of local governments could and had been done. Both citizens and local governments could also easily use it as a gauge of their LGUs' performance given their accessibility. Also, it has proven that there are LGUs that are well performing in many of the systems' indicators, which would set examples for the rest of the LGUs to look at.

However, the two systems also show a majority of LGUs that still experience poor governance, as evidenced by these LGUs not receiving the Seal, or scoring low in the Index, or both. It remains then to be seen whether these performance management systems do actually work, given that these were established just recently. The large gaps between the lowest and highest scorers in the Index also indicate the large disparities in performance among the LGUs.

There are other ways that, in theory, could be promoted as either a direct or indirect mechanism for performance management, but are left unused or misused in practice. One of them is the right and power of the citizens in a locality for direct legislation and recall. It was found that, at best, the utilization of this right

and power had been limited due to unwieldiness of the recall and direct legislation procedures (Yilmaz & Venugopal, 2013, pp. 233-4).

Capacity Development

Recognizing the disparity in the capacity of various LGUs to manage ENR roles and functions, the LMP proposes a capacity-based transfer of roles. LMP proposes that a certification system for LGUs be prepared by the DENR, DILG, and the local government through the Leagues to assess and certify LGUs in terms of capacity to assume specific devolved functions on schedule (LMP, 2006). Devolution of roles will be made gradually based on capacity to assume but with the end view that all appropriate functions will eventually be devolved. Geollegue suggests that highly technical functions in which LGUs demonstratively lack technical capacity should be returned to the central offices altogether (Geollegue, undated).

Local fiscal autonomy also requires developing capacity of LGUs for revenue generation. Pampanga, under the leadership of Fr. Ed Panlilio has shown the vast potential of judiciously applied and well-managed environmental tax systems to contribute to local finance (Torneo 2008). Technical assistance in this area may have a significant impact on LGU financial performance.

A complementary proposal is to utilize funds from Official Development Assistance (ODA) and GFI to catalyze public-private partnerships and effectively assist lower-income class LGUs (Magno 2008). LGUs are also challenged to find ways to stimulate private financing of ENR programs/projects. Lastly, LGUs can ensure that taxes collected from a declared Protected Area go directly to the Protected Area Management Board. (Elazegui, et al., 2002)

There is also a pressing need to build local capacity to take on the devolved roles (Magno 2008; Brillantes 2009). Capacity development towards local autonomy entails the development of the following: environment and development planning, administrative governance, resource allocation and utilization, resource mobilization, financial accountability, and stakeholder participation

Other personnel issues and concerns have also surfaced after devolution. As mentioned, there is a lack of career path and reduction in the upward professional mobility of devolved health personnel. The reduced number of scholarships also limits the development of health professionals and their capacity to manage health programs and services. Another issue is the lack of health personnel and services especially in far-flung rural areas.

In order to address these, it is proposed that career paths for local health

officials and personnel be developed, possibly in cooperation with the Civil Service Commission (CSC) and the DOH (Liga ng mga Barangay 2006).

More opportunities for capacity building (e.g. scholarship, training and continuing education) need to be opened to local health professionals. It is expected that health professionals who know more about health programs and projects at the local level should manage health services. Acquisition of capacities to formulate coherent health plans and budgets to enable LGUs to effectively attend to the health requirements of their people are needed (Liga ng mga Barangay 2006). Training personnel in hospital administration, public health or other fields is important in preparing them for higher positions.

LGUs should fill up vacant positions for rural health practice and tap on-the-job-trainees (OJTs) to address inadequacies in manpower. Liga Ng mga Barangay (LNB) also proposes that LGUs develop a system to encourage doctors, nurses and midwives to continue their work even outside Metro Manila and other urban centers. One approach is to encourage or even require medical and paramedical students and fresh graduates to render rural or urban poor service (Liga ng mga Barangay 2006).

Funds for implementing the Magna Carta for Health Workers should be prioritized in the budget of LGUs. There is also a demand for an increase in the benefits and salaries of doctors, nurses and other health care professionals, and their exemption from the Salary Standardization Law (Brillantes 2009).

The DA needs to strengthen its capacity to deliver extension services, provide capability-building/technical support to LGUs, and perform effective regulatory functions and state-of-the-art research and development (League of Provinces of the Philippines 2006). Focusing on building the capability of regional level offices, which oversee and provide support to large functional clusters may be the more practical and cost-effective approach.

While the problems of devolution are ever present, the DA has identified several reform directions. Involved are the conduct of several consultation dialogues with stakeholders; development of the national agriculture and fisheries research and extension program; and the transfer of the Central Office of major operating units in the different parts of the country to ensure closer supervision, coordination, and monitoring of agricultural programs (Magno 2009).

Continuous process of communication between LGUs and national government regarding the programs and thrusts for economic development must be facilitated. Decentralization, as examined from the experience of the DA, should have mechanisms to fully prepare the personnel economically, socially, and emotionally.

In addressing the present challenges, the DA should strengthen partnership with LGUs and the national government. The national agency should grant financial incentives to the DA-LGU Centers. The Department should develop comprehensive trainings and retooling programs. It is expected to redefine the roles of Provincial Agricultural Extension Services. Continuous coordination between the DA and LGUs is required for the programs and thrusts of agriculture down to the local level to achieve greater productivity (Magno 2009).

ICT Solutions to Governance Challenges

Over the years, harnessing ICT solutions has become a vital element in delivering quality and quantity government services. Investing in the right technology, for instance, has achieved tangible returns in the case of the City of Valenzuela, where the deployment of a Geographic Information System (GIS) to streamline the local permit application process drastically reduced the time required for the transaction process (see table).

Reducing Transaction Costs with Local Government in Valenzuela

Transactions	Duration (2004)	Duration (2012-present)
Obtaining a Business Permit	14-21 days	20 minutes
Releasing of Tax Declarations	2 days	15-30 minutes
Processing of Building and Construction Permits	2 months	1-2 days

Source: Congressman Sherwin Gatchalian

This GIS was credited for increasing tax revenues to more than 11 times the initial investment for the system. The city also rolled out electronic terminal, electronic billing and payment, and mobile payment systems to further automate the delivery of services, which contributed to doubling registration since 2004 at 113%.

These technologies are not new and the technology sector already has a strong presence that can be tapped for proper advice and partnerships. Local leaderships only need to adopt an innovative and open mindset regarding how they can be harnessed. Tapped properly, ICT has the potential to provide the most efficient and cost-saving solutions for all levels of government operations.

Conclusion

Although reviews are mixed, there is no denying that decentralization has accomplished much in terms of bringing government and resources closer to communities. Devolution has redefined the roles of both national and local governments, promoted self-management and accountability, and promoted local leadership. The Galing Pook, Gawad Pamana, Clean and Green, Lingkod Bayan, Magsaysay Awards, Konrad Adenauer Medal of Excellence, Local Government Leadership Award have done much to recognize successful innovations of local leaders and government units.

In order for decentralization to be successful, a number of effective and sustainable conditions need to be present. Cistulli considers the following as among the most important requirements: adequate financial resources to ensure the performance of the tasks under the responsibility of the local and decentralized institutions; actual empowerment of decentralized institutions and enough power and authority to influence the political system and development activities; accountability mechanisms such as local elections supporting transparency and representation; a legal framework clearly specifying the powers and responsibilities of local governments to avoid interference and overlapping with central government; and adequate capacities of local institutions to perform the appropriate services.

Clearly, decentralization in the Philippines has not yet met all of these conditions. Several cross-cutting issues are prominent in the devolution of health, environment, agriculture and social welfare. First, resource allocations from the national government did not correspond to the cost of devolved functions. While resources transferred by the National Government to the LGUs by way of IRAs were generally sufficient only to cover personnel costs in the four areas of ENR, SWD, DHS, and Agriculture, there is little left for the development of programs and projects. Despite provisions for revenue generation, LGUs have generally not been able to generate sufficient revenue to cover operational costs of devolved functions and majority are still dependent on the IRA from the national government. The problem is further exacerbated by unfunded mandates or laws that pose added costs but do not come with corresponding budgets.

Second, devolution has resulted in fragmentation, loss of coordinative efficiency, as well as gaps in information dissemination and transfer among the various levels and units of the devolved sectors. There are still plenty of grey areas and undefined jurisdictions. This is especially true in concerns that transcend geographical and political boundaries such as health and environment.

Third, national agencies have not yet geared operations towards full devolution of functions as defined in the LGC, and LGUs are not yet fully empowered to take on those roles. There is a tendency for national agencies to maintain control of programs and field implementation units instead of focusing on policy and standard setting, technical support, and oversight. LGUs also tend to depend on national agencies. Roles and responsibilities are not clear. At present, interference, grey areas, and overlaps in jurisdiction are observable. Accountability as well as expectations for meeting national goals are not jointly shared with LGUs and lean towards national agencies.

Fourth, there is a serious need to address personnel issues. Low salaries coupled with the loss of career paths, upward professional mobility, as well as opportunities for education and growth among devolved personnel have led to the demoralization and deterioration of vital human resources.

Despite these issues however, there is a consensus among stakeholders that further devolution is necessary in order to reap the benefits of enhanced local autonomy. Various recommendations and proposals have been forwarded by both the national agencies, and LGUs through the various leagues, as well as scholars of local governance. The specifics for health, agriculture, environment, as well as social welfare had already been outlined in the earlier sections. Just as there are crosscutting issues, there are also crosscutting proposals and solutions put forward by the various stakeholders in devolution. Moves toward further devolution will benefit from considering these proposals.

The first step towards further devolution is to clarify in clear language the policies, lines of authority, jurisdictions, as well as sharing of accountability between and among LGUs, as well as between LGUs and national agencies. This should be followed by a corresponding rationalization of organization as well as appropriate distribution of resources in order to eliminate overlaps and maximize resources.

As has been articulated in numerous studies, there is clearly a need to reform the IRA to ensure equitable distribution of resources and the funding of devolved mandates. LGUs will greatly benefit from cost-sharing schemes with the national government, such as that promulgated by NEDA in 2003.

A more long-term solution however is to temper the dependence of LGUs on IRA and focus on building the capacity of LGUs to generate revenues using the mechanisms provided by the LGC to support its operations. The IRA was, after all, originally intended only to augment LGU resources and promote equitability among LGUs - not fund the whole operation of LGUs as some officials seem to think. Judicious application of taxes, fees, and user charges combined with

graft and corruption-free management of funds is necessary in order to promote local fiscal autonomy. Revenue generation and fiscal administration should be prioritized in the capacity-building programs of the DILG.

Further devolution necessitates the transfer of thousands of employees from the national government to LGUs. There are still pending personnel issues, however. Clearly, there is a need for a personnel development plan with clear career paths and which allows lateral as well as vertical movements for local personnel. The DILG can work this out with LGUs, employee unions, and the CSC.

Regional offices of national agencies have a very high potential to bridge the gap between national policies and local goals and their respective priorities. Regional offices benefit from coverage, economies of scale, their proximity to LGUs, and direct linkage with national offices. They may be in the best position to perform monitoring, technical support, and capacity building. Developing regional offices to provide oversight, technical support, centers of research and development, and serve as interface between LGUs and the national government in the sectors of health, agriculture, social welfare, and environment might be a worthwhile strategy. There is also a need to consolidate local development plans from the bottom up. Information parameters need to be shared across LGUs and databases need to be linked together in order to facilitate effective planning and implementation of programs.

Inter-LGU and inter-agency alliances offer another promising mechanism especially in addressing concerns that transcend political boundaries such as health and environment. There is a need, however, to establish the appropriate framework, guidelines and mechanisms to guide LGUs and to make such arrangements legally binding. Local governments can agree to work together in a variety of ways. A contract forged between local governments where one jurisdiction purchases services from another is one option. Several jurisdictions can enter into a joint agreement to pool financial resources and personnel as well as equipment (Deller 1998).

Decentralization reform can proceed in a minimalist direction as the reformers seek to close a capacity gap by limiting local authorities to their core business functions. A more pro-active approach may seek to enhance the capacity and discretion of local authorities to take on more functions, engage community participation, and play a greater role in the delivery of development programs. A middle range approach, espoused by the Leagues, recommends that LGU preparedness (and corollary assumption of functions) should be determined through certification procedures. Individual LGUs shall be certified for which functions they are ready or otherwise to assume. That LGUs vary in terms of

priorities and capacities to implement devolved functions is a given. The important thing is to ensure that technical as well as financial support is made available to LGUs with weaker capacities.

In the Philippines, there are four tiers or layers of local governments: provinces, cities, municipalities, and barangays. The move to advance decentralization in the environment, health, social welfare, and agricultural sectors would require identifying the local tier that would assume the devolved functions. This would involve further research involving the application of certain principles in determining the specific functions to be assigned to provinces, cities, municipalities, and barangays.

The first principle governing the assignment of devolved functions would be the concept of subsidiarity. This principle states that public service responsibilities must be exercised by the lowest level of government unless a convincing case can be made for higher-level assignment (Shah and Thompson 2004). The normative rule holds that public services should be delivered at the most local level possible so that services can be tailored to the needs and preferences of the local population. The implicit assumption is that local populations will be able to exercise choice in demanding and defining local service requirements. Another implicit assumption is that the people know their preferences and priorities better than regional or national governing bodies, which are better suited to issues of national scope, such as military and trade affairs (Lindaman and Thurmaier 2002).

Each public service should be provided by the jurisdiction having control over the minimum geographic area that would internalize the benefits and costs of such provision (Oates 1972). It is quite plausible to argue that in the matter of service deliveries as well as in local business development, control rights in governance structures should be assigned to people who have the requisite information and incentives and at the same time will bear responsibility for the (political and economic) consequences of their decisions. In many situations, this insight calls for more devolution of power to local authorities and communities. The state may have to play certain activist roles: enabling mobilization of people in local participatory development; neutralizing the power of local oligarchs; providing supralocal support in the form of pump priming local finance; supplying technical and professional services toward building local capacity; acting as a watchdog for service quality standards; evaluating and auditing; investing in larger infrastructure; and providing some coordination in the face of externalities across localities (Bardhan 2002).

The LGC and the 1998 Fisheries Code transfer a substantial amount of responsibility to local governments, in particular to the coastal municipalities

and cities to engage in coastal management within a defined jurisdictional area of coastal lands and municipal waters to 15 kilometers offshore. Municipal and city governments have both executive (Mayor, Municipal Planning and Development Office (MPDO), Municipal Agriculture Office (MAO), and other staff) and legislative (Vice Mayor, Municipal Council) branches of local government. Municipal and city governments have the primary responsibility for planning and implementing Integrated Coastal Management (ICM) programs, including establishing marine protected areas, and enacting and enforcing fishery and coastal resource-related ordinances. Municipal and city governments receive an internal revenue allocation from the national government-based population size, land area, and an equal sharing factor (Lowry, Kem, Alan White, Catherine Courtney (2005).

At the city level, the acceptance and implementation of agricultural services would depend on the level of urbanization of the area. In Angeles City, services pertaining to the dispersal of livestock and poultry, palay, corn, vegetable seed farms, quality control of copra, enforcement of fishing laws in municipal waters, dairy farms, and the livestock market are not devolved (Legaspi and Santiago 2010).

Provincial government has both executive (Governor, Provincial Planning and Development Office, and other staff) and legislative (Vice Governor, Provincial Council) branches of government. While the role of provincial LGUs under both the LGC and 1998 Fisheries Code is not well defined; many provinces are beginning to fulfill an important coastal management gap to harmonize coastal management policy through the enactment of Provincial Environmental Codes; to develop coordinating mechanisms between municipalities, NGOs, and academic institutions; and to identify and address coastal management issues, and provide technical and financial assistance to LGUs implementing coastal management. The provincial mandate to directly implement ICM activities is limited and thus implementation occurs mostly through municipal and city governments. (Lowry, Kem, Alan White, Catherine Courtney (2005).

This model also argues for service delivery based on the benefits principle of public finance, namely, that, as much as possible, services should be funded through user fees, and basic community services such as police and fire protection (which have significant externalities) can be funded through local taxes. Services mandated for delivery by the central and regional governments are properly funded through grants in the form of intergovernmental transfers (Lindaman and Thurmaier 2002).

In contrast to central controls and extensive earmarks of local funding,

decentralization should give local officials increased authority to shift funds to improve service delivery. Decentralization should be associated with improved service delivery. The performance of services and the decentralization process itself should be monitored and evaluated by citizen groups through surveys and social audits (Guess 2005). Much of the planning at the local level is done at the provincial and municipal/city levels. It is at the barangay level where strategic, comprehensive and area-based planning is not usually implemented, which is unfortunate because poverty interventions are targeted at the barangay level. What is submitted as the barangay development plan is just a listing of projects (Atinc, Ndegwa, Taliercio, MacAntony and Mailei 2004).

Generally, the central government should be involved with overall policy, setting standards, and auditing; state governments should have an oversight function; and local governments should be involved in the provision of infrastructure and services. Assignment of public services to local or regional governments can be based on factors such as economies of scale, economies of scope (appropriate bundling of public services to improve efficiency through information and coordination economies and enhanced accountability through voter participation and cost recovery), cost-benefit spillovers, proximity to beneficiaries, consumer preferences, and flexibility in budgetary choices on composition of public spending. Assignment of responsibilities to various local governments could be asymmetric, based on population size, rural-urban classification, and fiscal capacity. Higher levels of government might exercise a regulatory or policy role, while lower levels of government are responsible for service delivery (Litvack and Seddon 1998).

¹ A government scandal broke out regarding the abuse and corruption of pork barrel, officially called in the Philippines as the Priority Development Assistance Fund [PDAF], which forced the Congress and then the Supreme Court to investigate the matter. The latter particularly looked at the constitutionality of the fund. After a long heated argumentation and contestation, the Supreme Court found PDAF unconstitutional and thus ordered its dissolution in 19 November 2013.

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Striking a Balanced Energy Mix, Ensuring Security and Affordability

CARLOS PRIMO C. DAVID, PH.D.

The national energy demand is projected to increase by 4-5% each year. It will be a daunting task to keep up with this demand at the rate that we are currently churning out power projects. This jeopardizes the phenomenal gross domestic product (GDP) growth posted over the last few years of the Aquino administration. In fact, the forecasted 6-7% year-on-year growth, while impressive on its own, may already be compromised. Many electricity-intensive industry sectors have yet to take off due to the lack of energy security.

However, energy security goes beyond having adequate power supply. It means achieving reasonable predictability in terms of reliability, quality, and acceptability of fuel source, as well as competitive cost to industry and consumers.¹ A secure energy sector will boost foreign investments and strengthen the manufacturing sector and infrastructure development, which will, in turn, pave the way towards industrialization.

While the importance of achieving energy security to the country's economic development cannot be understated, equally important objectives of climate protection and, ultimately affordability should also be kept in mind.

This document attempts to outline the Philippines' effort in achieving energy security. It also intends to identify the roadblocks in the process and some of the concrete changes that can be done to remove those roadblocks for the future of the country's energy sector.

The Current Situation

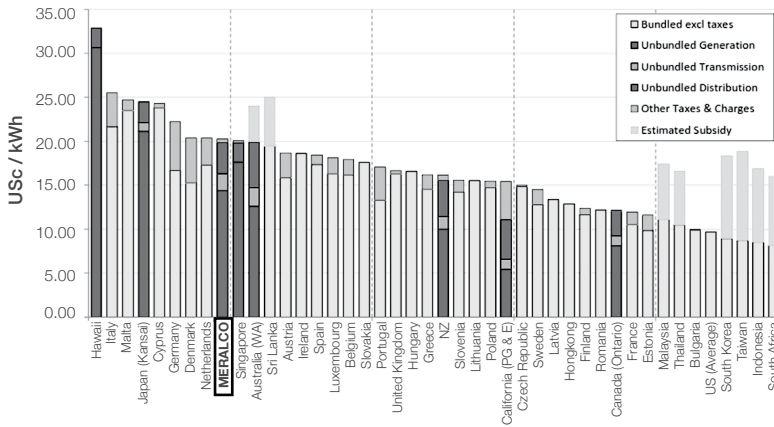
The High Cost of Power

Compared to our neighbors in the region, the average electricity rates in the country are significantly higher than the rates elsewhere, including countries like

Taiwan, South Korea, Malaysia, Indonesia and Thailand.² This is based on a 2012 report by International Energy Consultants (IEC).

Based on the report, one of the major factors contributing to the difference in prices among countries was some governments’ subsidies. These come in the form of frozen tariffs, the sale of fuel to utilities at below market rates, or through the government’s shouldering of utility-losses. In some cases, the subsidies made up 50% of the actual average cost of electricity. In the Philippines, rates are fully

Table 1: Average Retail Electricity Tariffs
(All 44 Markets Surveyed)



Notes
 1. Weighted average tariff (all customer categories) excluding VAT
 2. Tariffs for US (average) and Euro countries are for Nov 11. All other countries/states (incl Hawaii & California) are for Jan 2012
 3. Assumes tariffs in 50 US states have no "Other" taxes
 4. Estimated subsidies are based on long-run marginal cost of supply (including fuel subsidies) calculated by IEC
 Source: International Energy Consultants (IEC)

cost-reflective. Without these subsidies, the rates in these Asian countries would be at similar levels with the Philippines’.

Other factors cited were the additional transmission costs demanded by the country’s archipelagic configuration as well as the Philippines’ dependence on imported coal and oil to fuel electricity generation. In Luzon, approximately 80% of generation is fuelled by imported coal and oil purchased by generation companies at full international market prices and domestic gas pegged at international rates. The cost of these fuels directly affects generation costs, which already represent more than half of what residential consumers are paying.³

According to the Department of Energy (DOE), generation charges represent 51% of the residential power rates. While the cost of imported fuels is one of the factors that contribute to the high generation costs, the lack of competition in the power generation industry also plays a part in high electricity costs. The lack of competition often leaves no option for distributors and bulk consumers but

Table 2: Summary of MERALCO Residential Unbundled Power Rates, April 30, 2015 (Php/KWh)

Bill	0 to 200	%	201 to 300	%	301 to 400	%	Over 400	%
Subgroup	kWh	Share	kWh	Share	kWh	Share	kWh	Share
Generation	5.4121	51%	5.4121	49%	5.4121	47%	5.4121	45%
Transmission	0.9386	9%	0.9386	9%	0.9386	8%	0.9386	8%
System Loss	0.5579	5%	0.5579	5%	0.5579	5%	0.5579	5%
Distribution	2.2045	21%	2.5220	23%	2.8393	25%	3.4147	28%
Subsidies	0.1564	1%	0.1564	1%	0.1564	1%	0.1564	1%
Universal Charge	0.3524	3%	0.3524	3%	0.3524	3%	0.3524	3%
FIT – All Renewable Government	0.0406	0%	0.0406	0%	0.0406	0%	0.0406	0%
Taxes	1.0209	10%	1.0607	10%	1.1006	10%	1.1729	10%
TOTAL	10.6834	100%	11.0407	100%	11.3979	100%	12.0456	100%

Source: Source: 26th Status Report on EPIRA (DOE)

to buy more expensive energy. An extreme example was the 30-day shutdown of Malampaya power plant toward the end of 2013 that caused market prices to skyrocket to record levels, with the maximum offer reaching an astounding Php 62 per kilowatt hour (kWh).⁴

Another factor contributing to high energy prices is heavy taxation. According to the DOE, 10 percent of the bill constitutes government taxes and other fees, including Value Added Tax (VAT) on generation and distribution charges, franchise tax and royalties on indigenous fuels.⁵

Supply Situation: The Need for More Efficient Power Plants

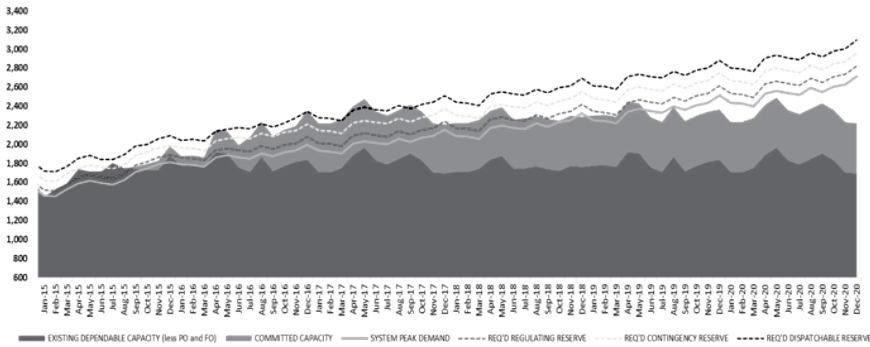
The country’s struggle with power security was highlighted in recent years. In 2015, the tenuous supply was further tested by the threat of impending power shortage in the dry summer months, brought about by the combination of the El Niño phenomenon, the scheduled maintenance shutdown of the Malampaya power plant, unscheduled outages of other plants, and the delay in construction of committed power projects.

As such, the Luzon grid was looking at a projected shortfall of as much as 1,004 megawatts (MW), of which 600 MW are needed as required dispatchable reserve, and 404 MW for required contingency reserves. If not for the cooler than expected summer and some cooperation from the power plants, DOE estimated that the shortage could have translated into one to three-hour revolving brownouts throughout Luzon over a four-month period.

Throughout 2015, the Mindanao grid, in the southern part of the Philippines, has also been operating on very thin reserve margins. Highly dependent on hydro-operated generators, Mindanao’s power security is constantly threatened by shortages. It was even worse in 2014, when various places in Mindanao suffered from up to 10 hours of daily outages due to powerplant repair works and decreasing water levels in lakes and rivers that fed its hydropower plants.⁶

The Visayas grid was the only grid that did not lack supply in 2015, but if new capacities fail to come online in the next few years, it may soon share the same situation being faced by the Mindanao grid.

Table 3: Visayas Demand-Supply Outlook 2015-2020

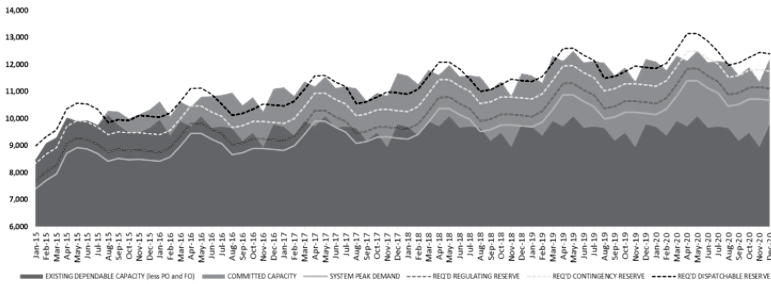


Source: DOE Demand-Supply Outlook 2015-2020

As the graph above shows, the existing dependable capacity was enough to provide for required peak demand for most of 2015. However, in the fourth quarter of 2015 and onwards, additional power plants are already needed to supply the region’s projected demand. There is a total of 514 MW of power committed to come online between 2015- 2016, beginning with 101.9 MW in 2015, followed by 412.5 MW the year after.⁷ While a huge portion of this committed supply will be coming from coal-fired plants, 132.5 MW of the committed power will be coming from the Cadiz Solar Power Project in Negros Occidental, said to be the largest plant of its kind in Southeast Asia.⁸ Nevertheless, based on the data, even if these committed capacities come online on the committed dates, it would just be enough for the Visayas grid to meet contingency reserve levels. In addition, with little to no additional capacity committed for 2017 onwards, the Visayas grid could be facing its own power crisis soon.

The demand and supply outlook for Luzon paints a similar picture. A power crisis was averted in 2015, but more sources of power are still needed in the long run. While in the short term, existing dependable capacity in Luzon will just be enough to meet projected peak demand for the most part of 2016.⁹ This is barring any unscheduled shutdowns of power plants. According to the DOE, in 2015, they estimate that at any one time, unscheduled forced outages could contribute to the

Table 4: Luzon Demand-Supply Outlook 2015-2020



Source: DOE Demand-Supply Outlook 2015-2020

drop in supply anywhere from 1.5% to 7.5% of existing dependable capacity. With such slim supply margins, these forced outages can trigger rotating brownouts across the grid.

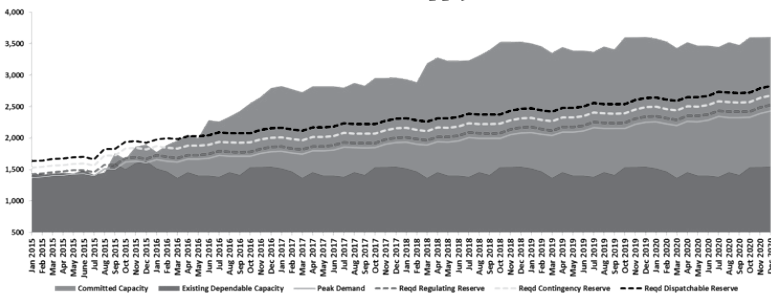
Table 5: Assumed Average Forced Outage of the Total Dependable Capacity (Luzon)

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
(%)	1.5	2.0	2.0	6.3	5.6	7.5	7.5	2.8	5.2	6.9	7.2	3.1
MW	167	230	631	712	642	858	856	316	595	779	808	348

Source: DOE

Mindanao, on the other hand, will continue to face a tight power supply until sometime in 2016, when enough committed power plants come only to consistently meet necessary contingency grid reserves. In 2016 alone, a total of 9 power plants are committed to add a total of 990 MW of power to the grid. Of these, one is a 25MW hydro-electric power plant, another is a 10 MW Biomass powered plant, while the other 7 are coal-fired power plants generating at least 100MW each that can serve as baseload plants.

Table 6: Mindanao Demand-Supply Outlook 2015-2020



Source: DOE Demand-Supply Outlook 2015-2020

The Source of Energy; Balancing Fossil, Renewable and Cost

The source of energy provides insight on the sustainability of the energy sector as well as trends in energy development. There are bright spots in the local energy market; the stable source from the Malampaya natural gas facility has provided the largest indigenous energy source since 2002, and will continue to do so for

*Table 7: List of Existing Power Plants
(by Fuel Type)*

FUEL TYPE	PHILIPPINES					
	Capacity (MW)			Percent Share (%)		
	Installed	Dependable	Available*	Installed	Dependable	Available*
Luzon	13,524	11,868	9,590	73	75	76
Visayas	2,692	2,150	1,627	15	14	13
Mindanao	2,237	1,860	1,363	12	12	11
LUZON						
Coal	4,806	4,514	3,704	36	38	39
Oil Based	2,139	1,592	1,263	16	13	13
Natural Gas	2,861	2,759	2,362	21	23	25
Geothermal	844	692	507	6	6	5
Hydro	2,484	2,145	1,674	18	18	17
Wind, Solar, Biomass	390	166	80	3	1	1
VISAYAS						
Coal	806	630	532	30	29	33
Oil Based	670	493	308	25	23	19
Natural Gas	1	1	1	0	0	0
Geothermal	965	817	705	36	38	43
Hydro	11	11	5	0	1	0
Wind, Solar, Biomass	238	198	77	9	9	5
MINDANAO						
Coal	232	210	181	10	11	13
Oil Based	799	705	518	36	38	38
Natural Gas	0	0	0	0	0	0
Geothermal	108	98	99	5	5	7
Hydro	1,061	837	564	47	45	41
Wind, Solar, Biomass	37	10	2	2	1	0

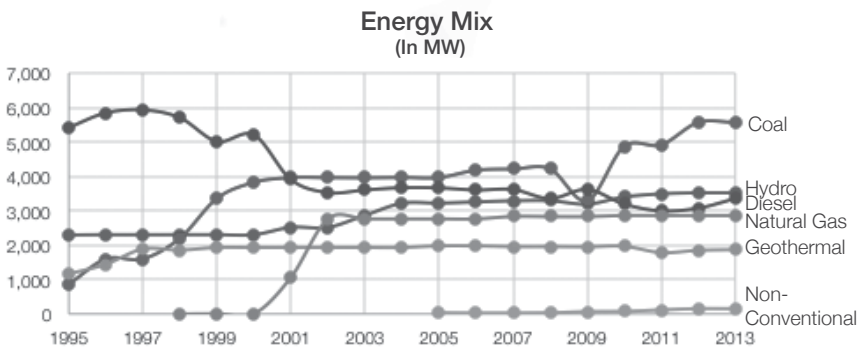
Source: DOE List of Existing Power Plants, 30 June 2015

the next decade. There is also a slow but steady increase in contribution from hydropower and a fledgling Renewable Energy (RE) market since 2005. One example is the Cadiz solar power project in Visayas which is set to be operational in 2016. It is the largest solar powered project in Southeast Asia; the group behind the project said that this single facility can supply, more than half of Negros Occidental’s daytime power requirements.¹⁰

However, bulk of the energy demand is still covered by the increase in contribution from coal-fired power plants. For now at least, coal-powered plants are still the most dependable sources of power generation. Given the country’s need for immediate additional power generation to meet the demands of a growing economy, the need for coal-fired base load plants is still there. Base load plants are those plants that can produce continuous, reliable and efficient power at low costs and can run at all times through the year, except in the case of repairs or scheduled maintenance.

While there are upsides to using coal-fired plants as base load plants, a downside is the insufficient indigenous sources of coal. In 2006, the Philippines imported 7.2 million metric tons of coal. This has increased two-fold in 2013 at 14.4 million metric tons imported, of which 13.9 million came from Indonesia. It is unfortunate that even for our most basic power generation needs, we must rely on foreign sources of fuel as currently, only 55% of the energy requirements are from indigenous sources.

Table 8: Philippine Energy Mix



Source: DOE

Knowing this contextual information on electricity prices, supply situation, and source sustainability, let us now start assessing where the problem areas lie and what we can do to reduce the cost of electricity generation and make such cost fairly stable over a long period of time.

The Need for a Competitive Market for Energy Security

In general, experts agree that we are in the legal and fiscal position to achieve energy security. The landmark Republic Act No. 9136 or the Electric Power Industry Reform Act (EPIRA Law) of 2001 provides for a clear directive to open the power generation sector to local and foreign investment to create a competitive market. It also aims to promote indigenous energy sources to reduce dependence on imported energy.

Fourteen years after its passing, the Philippines is yet to maximize the impact of such forward-thinking legislation. In fact, many of the objectives it set out to achieve have not been met and certain provisions have not yet been fully implemented.

The Asian Development Bank (ADB) calls the EPIRA Law a huge step in the “unbundling” of the power sector. The EPIRA Law aims to liberalize the power sector and to set deregulation measures and privatization in motion. The first step towards this goal was to require state-owned, debt-ridden utility company National Power Corporation (NPC) to break up its vertically-integrated structure into smaller generation, transmission and distribution structures. This opening allowed the participation of many competitive technologies, including renewable energy. The removal of subsidies leveled the playing field for renewable technologies by making the price of conventional fuels reflect their true market value. With NPC’s privatization, the EPIRA law has established a system for the private sector to participate in the energy sector. It puts in place an independent regulator and power producer administrator which can keep track of optimizing private company profits without compromising the basic goal of electricity affordability and adequate supply.

The implementation of the law suffered delays during its early years, however, particularly in opening access to the energy market. More importantly, inefficiencies in the conduct of private sector engagement exist.

Privatization will lead to a competitive market, but not in the short term. When the existing NPC plants were auctioned off to private companies, natural increases in power rates ensued as the new owners needed to recoup the costs of acquisition of an existing power plant. Furthermore, old NPC power plants were arguably less efficient to run, making costs slightly higher than those that use newer technologies.

In hindsight, it may have been better to have bid out the NPC plants not in terms of bid cost (with the highest bidder as winner) but instead on how low they can provide power costs (with the lowest cost as winner), similar to how water

concessions were bid out in Metro Manila.

The lack of a competitive power industry in the Philippines is perhaps most evident in the conduct of open market power sales through the wholesale electricity spot market (WESM). WESM provides a system in which energy requirements can be covered, excess electricity generated can be utilized, and enough predictive capabilities can be achieved ahead of market demands.

In 2014, the WESM had 54 participating power generators with 175 customers, the bulk of which were electric cooperatives connected to the Luzon grid. On paper, these statistics seem to show an open, and competitive market. Upon closer inspection, the electric market is still not what it was envisioned to be. Privatization under the EPIRA Law has resulted in only three major power companies- San Miguel Corp., Aboitiz Power Corp., and the First Gen Corp. of the Lopez Group – controlling around 60% of electricity generation industry, collectively.

With so few players, the possibility of collusion among them could result in more expensive power for consumers, as was allegedly the case in 2013. The Energy Regulatory Commission (ERC) must ensure that collusion among power-producing companies resulting in the manipulation of electricity prices in WESM does not occur. The government has introduced safeguards against such activities, but a further review of the rules of the WESM under the short supply regime may be necessary.¹¹ While ultimately, the only real way to eliminate collusion is to increase the number of players and the capacity of the generation industry.

The Role of Renewable Energy

The EPIRA Law also paved the way to reduce dependence on imported energy by providing incentives in developing indigenous sources. This was followed by another landmark law called The Renewable Energy Act of 2008 (RE Act) which promoted the development of renewable energy sources through various fiscal incentives.

The US National Renewable Energy Laboratory (NREL) projects that the country has vast potentials in three “new” renewables: wind, solar and biomass. Currently, the “traditional” renewables dominate the RE market: large hydropower and geothermal energy. Nevertheless, we have seen a significant increase in biomass and wind energy contributions in the last five years. Since the RE Act was passed, a total of 3,000MW from REs have been or is planned to be installed in the near future.

A more aggressive projection in renewable energy share is projected by the DOE for the immediate future: 2,000 MW from biomass; 2,950 MW for hydropower, of which 1,700 MW will be from mini hydropower sources; an additional 1,200 MW from geothermal on top of the current 1,900 MW; 500 MW from wind, as well as a large but unquantified potential for solar and wave energy. From these sources, it is envisioned that at least 40% of the country’s total energy requirements will come from these clean and indigenous sources. This is not an impossible feat since back in 1999 RE already had a 44% share of the power mix.¹²

To attract RE investments, a fiscal incentive called the Feed-in-Tariff (FIT) system was introduced for those bringing renewable energy into the electricity mix. With the FIT for renewable energy sources, it provided a market where the currently more expensive REs can compete with fossil fuel-based sources. Under the FIT, the ERC sets a quota for specific REs and a FIT rate for each source. Currently, renewable energy FIT rates are as follows: PhP 9.68/kwh for solar, PhP 8.53/kwh for wind and PhP 5.90/kwh for run-of-river hydroelectric power.

Table 9: ERC Approved FIT Rates

Technology	Installation Target (MW)	FIT Rate (Php/kWh)	Degression Rates
Biomass (1)	250	6.63	0.5% after 2nd year
Run-of-River Hydro (2)	250	5.90	0.5% after 2nd year
Solar (3)	50 (4)	9.68 (4)	6.0 after 1st year
Wind	200 (5)	8.53	0.5% after 2nd year
Ocean	10	Deferred	None

(1) Based on solid biomass project
 (2) Based on a project with capacity between 1MW and 10MW
 (3) Based on a ground-mounted project with capacity of more than 500kW capacity
 (4) FIT-2 = Php8.69/kWh for new projects beyond 50MW up to 500MW
 (5) Installation target increased to 400MW
 Source: ERC

The latest request for FIT quota for solar power has its cost lowered to less than PhP 9/kwh. All indications point towards a vibrant RE market with predicted investments in the sector being realized. At least fifteen RE projects have been approved by the ERC as FIT-eligible in 2015. This includes several biomass plants, methane-capture systems and four wind farms. Ultimately, RE sources are projected to be cost-competitive in time and may even be more appropriate for certain markets (i.e. small islands, off-grid agro-industries, etc.)¹³

Through the continued development of renewable energy sources, the Philippines can slowly minimize its reliance on foreign sources of fuel. Until then, the Philippines must strive to strike a balanced energy mix of both renewable and non-renewable sources of energy while still keeping in mind the factor of the cost and affordability of power for the consumers and businesses alike.

The Case for Affordability

More than just overall cost of power, however, perhaps a better measurement would be in terms of affordability. This can be deduced by comparing electricity generation cost to the country’s GDP per capita. The table below shows electricity affordability as normalized with Brunei which has the most affordable rates. Together with Brunei, Singapore, Malaysia, and Thailand are in a group with the most affordable rates. The second tier countries are that of Laos, Vietnam and Indonesia while the third tier countries with the least affordable rates include the Philippines, Myanmar and Cambodia.

Table 10: Electricity Cost and GDP Per Capita in Select Asian Countries

	Electricity Cost/kWh <i>(USD/kWh)</i>	GDP/Capita <i>(USD)</i>	Electricity Cost/GDP <i>(Normalized Against Brunei)</i>
Brunei	0.008	54,210	1
Singapore	0.206	62,509	22
Malaysia	0.071	16,779	29
Thailand	0.054	9,501	39
Laos	0.042	2,876	99
Vietnam	0.068	3,449	134
Indonesia	0.104	4,902	144
Philippines	0.136	4,299	214
Myanmar	0.055	1,571	237
Cambodia	0.151	2,528	405

Source: ASEAN Centre for Energy, National Power Corporation (NAPOCOR), Singapore Power, Electricity Authority of Cambodia, PT PLN Statistics, Vietnam Ministry of Industry and Trade, Tenaga Nasional Report

The normalized comparison roughly shows that electricity generation in the Philippines is about twenty times less affordable than Brunei, ten times less affordable compared to Singapore and about twice less affordable compared to Vietnam. One can also benchmark with Indonesia which has the closest GDP/capita to the Philippines. If we do so, our current electricity rates should be at least in the order of USD 0.11/kWh or no more than PhP 5/kWh. This high energy cost in the Philippines translates to about 3% of the average per capita household expenditure according to a University of the Philippine Center for Integrative and Developmental Studies (UP CIDS) study in 2011. This is high compared to most ASEAN countries wherein electricity costs are less than 1.7% of household expenses.

The affordability of energy is a major concern for Filipinos. This is why there was immediate opposition to the ERC’s order to implement an additional FIT rate of PhP 0.04/kWh. The ERC insists affordability was one of the main considerations in the implementation of FIT rates. According to the ERC, the FIT rules provide for automatic reductions in the rates. Known as digression, it incorporates a

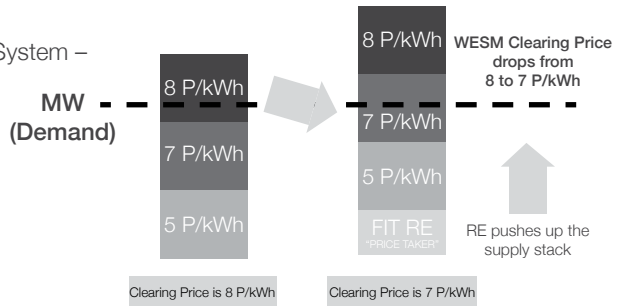
regular review process for FIT and links its entitlement to installations targets set by DOE. With these safeguards, the ERC says it can retain control over the level at which the FIT is set.¹⁴

Further, while FIT rates may represent an additional charge on the consumers’ electricity bills, the increased RE generation it brings to the grid could shift the supply curve and effectively lower generation charges. Because RE has almost 0 marginal cost, it will be the first in the merit order. This means more RE generation could be eliminating the need to purchase more expensive power and theoretically lower generation charges by lowering the clearance price of generation.¹⁵

Table 11: RE effect on the Merit Order

Merit Order Effect

As per RA 9513, Sec 7; FIT System – “The priority purchase and transmission of, and payment for, such electricity by the Grid SO”



Source: Venturina, R. (2015), *Achieving Energy Security and the Role of Clean Energy in Striking a Balanced Energy Mix*

Conclusion

The Right Energy Mix; Ensuring Adequate Supply and Affordability

The first variable in any national electrification plan is future energy demand. Long term energy planning is required since power plant development takes years. Determining the country’s power demand in the future then will mean deciding on what type of industries to pursue - a clear economic direction. This determines the energy base load required in every region which can then be used as basis for how much energy supply should come from RE, natural gas, and other fossil fuel-based power plants.

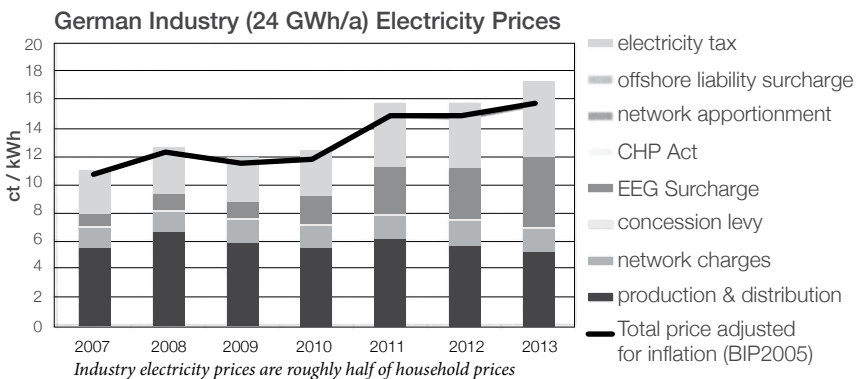
The DOE forecasts the average annual electricity demand growth of 4.6% for the country, which translates to an additional 9,000 MW of new installations between 2012 and 2030. This is a “business as usual” scenario that has yet to take into account any drastic shift, as a matter of policy, towards energy-intensive

industries. Without such clear direction, what can be done is to simply benchmark with ASEAN neighbors in terms of electricity demand and price and let market forces dictate on which industry will flourish. This makes perfect sense with the impending ASEAN integration.

Once a clearer energy demand forecast is attained, planning for energy generation can ensue. The National Engineering Center (NEC) of the UP Diliman provides training for electric cooperatives on electric power management. The training course revolves around understanding the concept of “Least Cost Mix,” which optimizes a power distributor’s source of base load, intermediate load and peak load requirements. It takes into account not only the price of various energy sources but its reliability as a source and the public’s willingness to include cleaner, if more expensive, renewable energy sources. It is a basic concept that should be used to evaluate current contracts as well as a planning tool for an electrification program.

In addition to considering the Least Cost Mix principle, a national energy plan should also give consideration to the Low Carbon Economy (LCE) option, which puts a premium on carbon emission reduction. To truly achieve an LCE, this would have to be mandated or else most consumers would simply opt for energy sources solely based on cost. Many industrialized nations have already started shifting towards an LCE approach which puts energy security within the larger context of climate change and long term sustainability. One example is Germany, which set its target for RE in its generation mix at 80% by 2015.¹⁶ Needless to say, a vital component in the LCE option is the aggressive development of renewable energy sources.

Table 12: Electricity Prices in Germany



Source: Ursula Mumpro, *Germany’s Energy Transition Strategy and International Energy Cooperation*

The Philippines, however, may not afford to be as aggressive as industrialized countries like Germany,¹⁷ but as the Philippine economy continues to grow and industrialize, the Philippine government must, as early as now, strive to reduce the country's carbon emissions as it seeks an affordable and balanced energy mix that meets the growing demand and boosts the country's competitiveness.

It is important to consider approaches such as the Low Cost Mix and the Low Carbon Economy when discussing energy policies since, at the end of the day, it is not enough to have enough energy supply, equally important policy objectives of affordability and climate protection must also be met.

Figure 1: Achieving Balanced Energy Security



Source: F. Juan (2015), Energy Security and the Role of Renewables

Policy Recommendations

1. Facilitate a More Competitive Power Sector

To increase competition, the Philippine government should encourage the inflow of new entrants in the generation industry. One option for the DOE is to develop a one-stop-shop for investments, speeding up the permitting process for prospective power developers. The current setup requires potential investors to first secure over a hundred permits from several government agencies, like the Environmental Compliance Certificate from the Department of Environment and Natural Resources (DENR), an approval from the host community, and corporate registration from the Securities and Exchange Commission (SEC), among others. This arduous bureaucracy discourages many possible investors and consequently delays the building of much-needed projects that can address current base load shortages.¹⁸

Lastly, WESM's operational rules can be further improved, such as the determination of power cost through the system marginal price rule. While this is being practiced in other countries, there is room for

improvement in the conduct of the method. Today, power purchased through WESM only contributes 10% at most of the total power requirement. This market system can definitely play a larger role if implemented properly. For instance, in 2014, the ERC's cap on WESM prices preemptively mitigated the effects of the maintenance procedures of Malampaya and other producers.

2. Review and Reduce the Cost of Power

To ensure the affordability of electricity in the country, the government should also consider reviewing the current tax system in the energy sector, particularly the Value Added Tax (VAT), universal charges, and Royalties, all of which are passed on to the consumer. Currently, taxes contribute to 10% of a consumers' electric bill. The government could consider reducing the VAT rate and Real Property Tax rate especially during periods when supply is tight and prices tend to go up. The government should also study the compounding effect of VAT on an "unbundled" power sector. Finally, it could further study the possibility of using royalties from natural gas to reduce power cost.

There is also the need to review and properly implement the DOE circular requiring power distribution utilities to undergo a competitive selection process (CSP) when purchasing their power requirements. The objective of the CSP is to make the process more transparent and bring down electricity prices. Implemented properly and under the correct conditions, the CSP would certainly achieve its objective. However, these correct conditions, including an abundant power supply, do not currently exist. On the contrary, implementing the CSP under current conditions might even end up increasing the cost of power.

3. Empowering Electric Coops

The empowerment of electric cooperatives is the key to energy security in the countryside and the growing urban centers outside Metro Manila. According to Dr. Rowaldo del Mundo of the Department of Electrical and Electronics Engineering in UP, many coops are able to reduce the price of electricity within their jurisdiction through technical training, adopting a transparent competitive process in power supply bidding, and designing the power supply contract advantageous to their respective requirements. In Mindanao, electric coops successfully agreed to provide power generation at the cost of P4.09/kWh by 2018 when the going

rate in the region is currently PhP 5.50-6.30/kWh. In Region III, where individual coops were organized to purchase as a group, they were able to contract out supply at PhP 3.70/kWh by 2019.

The role of strong electric cooperatives becomes even more crucial in the development of the power sector in islands outside of the Luzon grid. Island power development planning presents an opportunity to plan carefully the right electricity source balance, exploiting indigenous sources such as mini hydropower, wind and even solar. In fact, REs will fit perfectly in off-grid islands with their smaller electricity demands.

The role of cooperatives would be key in areas of the country that are still not electrified. This is especially true in areas such as the Autonomous Region of Muslim Mindanao (ARMM) where less than 32% of the population has access to electricity. In fact, many other areas in Mindanao are unelectrified with the electrification for the whole region estimated at just 60.18%.

4. Continue to Develop Indigenous and Renewable Sources of Energy

Another policy that drives the knowledge of and use of renewable energy is ERC's resolution on net-metering. Resolution No. 9 (Series 2013) allows electricity end users to feed excess electricity from renewable energy sources back to the national grid. This effectively provides incentives for the public to invest in RE for home and light industry consumption.

Upon the recommendation of the National Renewable Energy Board, the DOE could also establish a Renewable Portfolio Standards (RPS). Based on its draft implementing rules and regulations (IRR), the purpose of the RPS is to contribute to the growth of the renewable energy industry by diversifying energy supply, spur socio-economic development in rural areas, and help address environmental concerns of the country by reducing harmful emissions. Aside from RE plant certifications, the main clause in its IRR is that each mandated sector is required to increase its electricity source from eligible RE resources and which shall, in no case, be less than one percent (1%) of its annual energy demand over the next ten years. Included in the RPS are energy sources coming from biomass, waste to energy technologies, run of the river hydropower, solar, wind, ocean energy and hybrid systems. Mandated sectors include all distribution utilities and retail electricity suppliers, as well as those in economic zones.

While the RPS will positively affect growth in the RE industry, the draft policy has drawn mixed reactions, mainly because of the uncertainty of its impact on consumer electricity prices. This is why implementing such a policy should have due consideration for the principle of “Least Cost Mix”, which refers to the delivery of energy through a blend of sources and efficiency measures that take into account not only the reliability and the price of these sources.

Furthermore, the country must support the implementation of Republic Act No. 9367 or the Biofuels Act of 2006, which mandates the blending of locally-sourced bioethanol and biodiesel. In 2015, the requirement was a blend of 10% bioethanol in gasoline and 2% biodiesel in diesel fuel. The law was supposed to reduce fuel importation, provide value-added income to farmers, develop local industry suppliers and indirectly reduce national carbon emission. However, local supply has been unable to meet the demand and the country has remained a net importer of biofuels which will likely lead to higher fuel costs despite, falling petroleum prices in the world market. The country should not abandon the objectives the Biofuels Law set out to achieve, but a comprehensive program on biofuels to meet the local demand must be crafted. The Department of Science and Technology (DOST) is planning on constructing industrial plant prototypes to produce biofuels from other non-food crops such as sweet sorghum.

Lastly, in the EPIRA Law, there is a provision called Retail Competition and Open Access (RCOA) which must be fully implemented. Essentially, RCOA provides the ability for consumers to choose their own retail electricity supplier. Initially, commercial and industrial customers (with consumption greater than 1 MW/month) will be able to choose their supplier and get the lowest price possible. Pending the operational rules that must be agreed upon by both consumers and electricity providers, it is a welcome development towards a true open market.

We have witnessed how the high cost and lack of steady supply of electricity have hindered and continue to hinder this resurgence. A number of industries with the potential of contributing immensely to economic growth are encumbered by power constraints.

Energy security in the country is within reach - the private sector has been engaged and a regulatory environment is in place. A vital ingredient of the strategy in attaining energy security is the role of renewable energy. Below is a summary of recommendations.

1. Develop a comprehensive long term power development strategy and targeted power cost that facilitate a competitive power sector;
2. Review the fees and taxes that increase the cost of power;
3. Optimize the energy mix by implementing the Least Cost Mix (LCM) principles with due consideration to a Low Carbon Economy (LCE) strategy in all electric cooperatives;
4. Develop and promote renewable energy sources, especially run-of-river hydropower, for off-grid islands and an alternative source for light industries; and,
5. Fast track energy development projects by establishing a less bureaucratic One Stop Shop for energy investments.
6. Once there are enough players, a truly competitive, market-driven and transparent pricing mechanism must be implemented by adopting an open competitive bidding process for all energy related transactions.

¹ Alejandro, J (2015). Private Sector Perspective on Achieving Energy Security and the Role of Clean Energy in Striking a Balanced Energy Mix. Presented at ADRI Energy RTD

² International Energy Consultants (IEC)

³ Department of Energy (2015). 26th Status Report on EPIRA

⁴ Ibid

⁵ Department of Energy (2015) Demand-Supply Outlook 2015-2020

⁶ Albert del Rosario Institute (2015). Beyond Band aid Solutions

⁷ Ibid

⁸ Dangcalan, D. (2015, June 12). Construction of Negros solar power plant starts. Philippine Star.

⁹ Department of Energy (2015) Demand-Supply Outlook 2015-2020

¹⁰ Ellera, T. (2015, April 6), Cadiz eyed as power capital. Sun Star.

¹¹ Alejandro, J (2015). Private Sector Perspective on Achieving Energy Security and the Role of Clean Energy in Striking a Balanced Energy Mix. Presented at ADRI Energy RTD

¹² Venturina, R. (2015), Achieving Energy Security and the Role of Clean Energy in Striking a Balanced Energy Mix. Presented at ADRI Energy RTD

¹³ Ibid

¹⁴ Juan, F. (2015). Energy Security and the Role of Renewable. Presented at ADRI Energy RTD

¹⁵ Ibid

¹⁶ Ibid

¹⁷ Ibid

¹⁸ Albert del Rosario Institute (2015). Beyond Band aid Solutions

Advancing Sound Resource Management as a Requisite for Sustainable Development

CARLOS PRIMO C. DAVID, PH.D.

The environment had never figured prominently in any administration's agenda. Except for token motherhood statements on biodiversity conservation, climate change, and natural heritage preservation through ecotourism, there was never any deep appreciation of the complex environmental issues in the platform of any president. Often, the agenda is presented as a disparate issue, as if it can be completely divorced from perennial buzz words like economic growth, self-sufficiency, and industrialization. Since time immemorial, there has been no clear direction from government on how it will manage our ecosystems and the vast resources in them.

The Philippines is among the most mineral-rich countries in the world. There is evidence to suggest that our seabed hosts oil and gas deposits. We are at the center of a global biodiversity. The country also boasts of scenic attractions more than capable of sustaining a vibrant tourism industry. And yet government seems to think that ecological protection occurs on a completely different plane as resource development.

The real task then is determining how to strike a balance between the two. It is high time for government to approach these environment and economic ideals as one comprehensive agenda, anchored on sound technical inputs and clear policy directions. The concept of sustainable development has to enter the political picture.

Here lies the challenge: the diversity in opinion on where the fulcrum lies between environment and economics. Environmental non-government organizations (NGOs) and indigenous groups may put the balancing structure closer towards the side of ecological protection, whereas businesses may put more

weight on economic development. In many cases, environmental conservation entails costs and therefore its prioritization varies between low income and affluent classes. Socio-emotional considerations also become a factor. In the end, what is equitable in terms of resource use depends on the value attributed to the ecology that will be compromised.

But while conflict is inevitable at the level of individuals, it is up to government to lay down clear policies to help resolve them. It must take a united stand against varying opinions, providing a clear voice that takes the position of the majority. Government must not promulgate policies that are not aligned with the common ideal that it wants to espouse. It must also review regulations that are practically unenforceable in the current government set-up which leads to selective application of the laws.

What follows is a menu of topics on areas of struggles when talking about sustainable development. Policy strategies that may be beneficial in our decision-making process follow next.

Mineral Resources: Change Harmful Policies, Unleash the Potential for Transformative Growth

Despite being ranked as the fifth most mineralized country in the world, the Philippines has never been able to capitalize on its vast mineral resource.¹ For the past three years, mining’s contribution to Gross Domestic Product (GDP) had stood still at 0.7%.² The Mining Act of 1995 was supposed to be the guiding

Table 1: Mining Contribution to Philippine Economy

Gross Production Value	2011	2012	2013	2014	Q2 2015
Large Scale Metallic Mining	P88.5Billion	P97 Billion	P98 Billion	P137.6 Billion	P23.69 Billion
Small Scale Gold Mining	P34.6Billion	P2.1 Billion	P1.1 Billion	P1.0 Billion	P0.03 Billion
Non-Metallic Mining	P41.1 Billion	P45.6 Billion	P57.8 Billion	P66.1 Billion	Not available
Total Taxes, Fees Collected	P22.3 Billion	P19.4 Billion	P22.8 Billion	P27.8 Billion	P1.2 Billion

Source: Mines and Geosciences Bureau

legislation to revitalize the industry, but many of its provisions have been met with much contempt that several alternative versions are currently being reviewed in Congress. And while it supposedly remains in force, Executive Order No. 79 (EO 79), issued in 2012, effectively suspended any new mining activities with clauses such as a moratorium on mining applications and concessions in “other critical areas” and all “island ecosystems.” The former depends on a subjective assessment of what is considered “critical,” while the latter effectively covers all islands in an archipelago like ours. Even before EO 79, many local ordinances in South Cotabato, Samar, Davao City, and others, that ban mining or some form of it have run against the national legislation.

It is true that mining—and all types of extractive industries—will inevitably sacrifice areas that used to be intact ecosystems. The key is to strike a balance between mining and ecosystem integrity. In pursuing this, we should be guided by three related strategic tenets:

1. Certain areas should be permanently off-limits to mining due to their sensitive nature, function, and difficulty in restoration. These areas must be delineated based on sound technical evaluation;
2. Mining is a temporary land use activity and therefore restoration of an area to its original state and/or transformation to another economic activity (e.g. farming, light industries, etc.) must be part and parcel of any new development;
3. Maximize the benefits of mining by mineral value-adding, transforming mining towns as multi-industry areas to generate jobs and businesses beyond those directly employed in mining.

The so called “no-go” areas for mining are already outlined in the Mining Act. These include declared protected areas, national parks, and heritage sites. Expanding these in EO 79 to include prime agricultural lands is still acceptable as long as it comes with a clear indication of how prime areas are determined. Arguably, the conversion of agricultural land poses a huge problem on food security, but the main culprit is not mining but conversion to commercial and domestic purposes. For one, in the case of lateritic soil from where nickel, iron, and other metals are extracted, this soil type is naturally deficient in nutrients. Nickeliferous deposits cannot be classified as prime agricultural areas.

The poorly defined terms in EO 79, such as “critical areas” and “island ecosystems” render the guidelines vulnerable to subjective individual interpretation. What must be upheld is the total prohibition of mining on old-

growth forests. Mining may be permitted on secondary growth forests (and non-prime agricultural lands) provided that even more stringent standards of protection and rehabilitation are in place.

Laws and policies also do not address the problem of illegal mining and environmental destruction due to small-scale mining activities. Worse, the trend continues despite the imposition of a mining moratorium, and the establishment of the Minahang Bayan under EO 79. It is no longer true that small-scale mining activities are mostly of the subsistence type with low impact on the environment. Its non-regulation is clearly resulting to more ecological damage.

There is also a need to harmonize the different levels of laws and ordinances on mining to avoid costly stalemates. The pressing needs in this regard are political will, consistency in implementation, and good governance rather than the promulgation of more laws and regulations. A more rational approach is to strengthen existing regulatory frameworks and the strict enforcement of mining and environmental laws. A national land use plan, based on sound technical evaluation, that will rationalize the allocation, utilization, management, and development of our country's limited land resources will greatly aid in addressing social and environmental concerns.

In this regard, the best set-up in protecting the environment is one in which these functions are relegated to the other stakeholders, such as the host local community/ies and the local government units (LGUs). This is the essence of the Multi-partite Monitoring Teams (MMT).

Unfortunately, not all MMTs function as planned. Many LGU representatives become observers during the company's monitoring activities instead of actively participating in such an important exercise. In many cases, it is probably best for the LGUs to contract out this function to the local state university who will have enough technical knowledge to understand the undertaking. Payment of expenses including honorarium must not come from the mining company but from a fund held in trust for such activity to further strengthen the activities' independence from the mining company. Similar to the MMT set-up, rehabilitation efforts may also be relegated to the host community and state universities. The experiences of many mining operations in doing such a set-up have been positive. Not only is it cost-effective, it also promotes transparency. The key is for the host community to take ownership of the mining project.

The focus should shift from how mining could be sustainable (knowing that mining operations have a finite lifespan) to how mining and minerals could contribute to the long-term sustainable development of the area beyond the projected mine life. Mining areas should be progressively rehabilitated,

transformed into centers of economic development, and not treated as a mono industry. Mining can be used as an economic catalyst in the area with the company often building infrastructure such as roads and stable electricity supply.

It is also necessary to position mining as a crucial cog in the country's industrialization strategy. Linking mineral extraction to processing and to other downstream industries, like manufacturing, will enhance job creation, boost revenue streams, and, ultimately, contribute to the economy. The development of allied industries, however, needs a business environment that is competitive and attractive.

Needless to say, the positioning of the industry to become a catalyst must be in the manner that guarantees the protection of the environment. This can be done through a "portfolio investment approach" where government, primarily the Department of Environment and Natural Resources (DENR) and a panel of scientists and members of the academe is convened. The group should agree on common principles as guide to where mining can be done. Upon consultation with the concerned LGUs and communities, the panel should collectively identify which areas in each province are open for mining tenements. Once identified, that specific area should be pre-approved of all national and local licenses and permits including community consent, whenever necessary. Indicators of ecological integrity should be placed and a monitoring program should be well underway even before any mining activity is conducted. This way, the government is assured that an area is suitable for mining while mining companies can be confident that their investments will not be bogged down by bureaucracy or dissent from stakeholders.

Such was the fate of the mothballed Tampakan gold-copper mine in South Cotabato wherein the approval of its Declaration of Mining Project Feasibility (DMPF) has been suspended pending the resolution of a local ordinance banning open-pit mining, issues in agrarian reform, and the issuance of the approval of the project by the indigenous peoples (IP) in the area.

This approach may likewise find significance in dealing with the problems of the past in orphaned or abandoned mines since funding rehabilitation efforts remains a challenge for the government. Aside from tapping existing revenue streams generated by mining or creating a fund through a new levy on mining production, the portfolio investment approach can also be applied to address the difficult issues posed by abandoned mine sites, including pollution/contamination, land ownership, liability issues, overlapping jurisdictions, and long-term management considerations.

The academe can play an important role in providing the necessary technical

know-how for LGUs to deal with mining activities within their jurisdiction. The academe can likewise provide the necessary research and technology development geared towards monitoring ecological impacts, minimizing pollution and effluents from the mine, and ecological restoration programs. Taking into account the initiatives from industry associations (e.g. Philippine Mine Safety and Environment Association), international programs (e.g. Extractive Industries Transparency Initiative), and projects that promote self-regulation through an independent third-party evaluation (e.g. Environmental Performance Tracking Program), a better system for counter-checking the performance of mining companies in terms of compliance with their environmental contract can be achieved. Institutional support for these undertakings must be extended to ensure their continuity, effective implementation, and the cooperation of the bureaucracy.

In terms of private sector involvement, the Minerals Development Council (MDC), established in 2005, should be reinstated as the primary agency tasked with advancing government policy in the development of the country's mineral wealth. In the past, the private sector was able to communicate its concerns and recommendations directly to the regulatory, environmental, and fiscal agencies of government because it was officially mandated to be represented in the multi-agency council. As a result, concerns of the industry were adequately addressed. In contrast, the current Mining Industry Coordinating Council (MICC) is merely composed of two cabinet clusters: the Climate Change Adaptation and Mitigation; and Economic Development Cabinet Clusters. The private sector is not represented. Public consultations, therefore, became an issue with regard to policies laid down by the MICC.

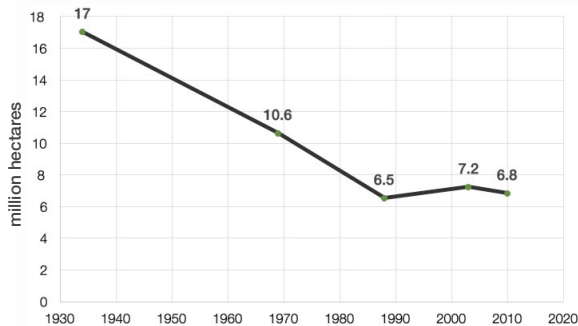
It must also be noted that illegal small-scale mining is responsible for the significant environmental damage being charged to the mining industry at large today. Small-scale mining is largely unregulated, both from an environmental and fiscal perspective. Small-scale miners generally do not have environmental protection or mitigations systems in place, and hardly pay the taxes due to the government. In fact, the term "small-scale mining" has become a misnomer because a lot of operators cannot be considered "small" as defined in the law. This is why Mines and Geosciences Bureau (MGB) data provides that more than Php40 billion in unreported gold output are generated from the so-called "small-scale" mines. If properly regulated, then this output would have given the national coffers a tremendous amount in additional excise taxes. Worse, illegal operators smuggle in huge quantities of highly toxic mercury to be used by small-scale miners who do not have access to safer methods of separating the gold from the ore.

It is thus crucial for the next president to provide a steady policy direction. Any industry, especially in the case of mining where the project cycle extends to more than two decades, requires a consistent policy framework where investments are not threatened by subsequent arbitrary modification. Otherwise, the country will not be able to attract legitimate miners, and so risk losing its resources to illegal mining with the concomitant severe degradation of the environment.

Forest Resources: The Need for a New Policy that Works, The Need for Serious Enforcement

The Philippine forest cover has been on a decline since it was first surveyed in 1934. In 2010, the forest cover has gone down to 23 percent or about 6.8 million hectares. Less than one percent of this represents the old growth dipterocarp forests which are now only found in the Sierra Madre Range (Cagayan, Isabela and Aurora), Apayao, Palawan, Agusan del Sur, Bukidnon, Davao del Norte and Surigao del Sur. This decrease has actually somewhat been halted due to the intensified reforestation efforts of the government, the private sector and civil society, as well as the enactment in 1992 of Republic Act No. 7858 or the National Integrated Protected Areas System (NIPAS). In 2011, the Aquino Administration also passed Executive Order 23 (EO 23) which upholds the moratorium on logging in Philippine natural and residual forests.

Table 2: Philippine Forest Cover, 1934-2010

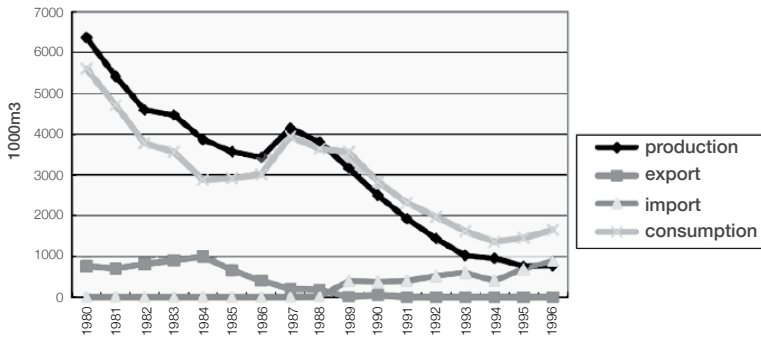


Source: World Bank (2009) and Forest Management Bureau (2012)

Despite EO 23, however, illegal logging still abound which further decreases the old growth dipterocarp forests even if, percentage-wise, these are replaced by reforestation efforts. What EO 23 have halted are legitimate concessions such as Integrated Forest Management Agreements (IFMA), Socialized Integrated Forest

Management Agreements (SIFMA), and Community-Based Forest Management Agreements (CBFMA) in natural and residual forests. It is, as it has always been, an issue of poor implementation of the law. The irony is that despite all the illegal logging happening, the country is still not able to meet the local lumber demand. In fact, the transition from net exporter to net importer of lumber occurred around 1989 when production was outpaced by the demand for the commodity.

Table 3: Philippine Lumber Production, Export, Import and Consumption 1980-1996



Source: *Philippine Forestry Statistics*

The importance of maintaining, if not increasing, the remaining forest cover extends beyond its worth as source of wood. It also functions as a carbon sink and promotes biodiversity conservation and watershed integrity. Such “value” should then be incorporated in the cost of forest products being sold. The value of the last forest stand should also be commensurate to the amount of protection we should provide and the gravity of penalty imposed on those found violating regulations.

A sustainable forest management law that can replace EO 23 and the old 1975 Forestry Code is warranted. The new law should also be clear with land use policies and land use assignments by the LGUs and national government agencies. Conflict arises with varying classifications. There is, in fact, a pending Forest Code in Congress which was never passed due to the unresolved debate between total and selective log ban. Because of our poor policy implementation record, it is recommended that we adopt a selective log ban that is clear and transparent in terms of which areas fall in which categories. As in mining, there should be “no-go” areas even for community-based or IPs’ utilization. Selective use of timber for communities and IPs must be accompanied with corresponding reforestation efforts.

Finally, a forest plantation management agenda must be in place. As in mining, a portfolio approach may be adopted wherein the government clears all areas available for tree plantation production. Clearance includes all national and local

permits as well as guarantees for acquiring tree cutting permits. These are then offered through competitive bidding to the private sector.

Marine Resources: The Need for an Integrated Management Strategy, Borderless as the Sea

Fish remains as the main source of protein for the Filipino family. Three groups do most of the fisheries activities: (1) majority of fisher folk do subsistence fishing; (2) a thriving commercial open water fisheries and aquaculture; and (3) inland water fish farms development. Therefore, it is not a surprise that fisheries contribute at least 3-4% of the country’s annual GDP. In fact, according to Alino (2005), the country is in the 11th top fishing nation with annual fisheries yield estimated at 2.7 million tons of aquatic produce, 62% of which come from captured fisheries while 38% is covered by aquaculture and inland fishing. The problem besetting the sector is the dwindling resources as manifested by the decrease in volume (Hilomen and Jimenez, 2001) and diversity in their catch. The Table below outlines the estimate of catch rate in terms of kilograms per trip showing the indicative decrease in fish resources over a period of 15 years.

Table 4: Catch Rate Estimate Over a Period of 15 Years

Fishery	1985	2000-2001 ^d	% Decrease
A. Municipal			
Gillnet	15.25 ^a	11.04	36.16
H/L	7.08 ^a	3.15	124.51
Fish corral	4.35 ^a	0.90	384.63
Fish trap	2.1 ^a	1.75	23.15
Baby trawl	31.3 ^b	14.68	113.17
B. Commercial			
Danish Seine	26.8 ^a	14.17	89.18
Trawl	31.8 ^c	15.37	106.90

a Calud et al. 1989

b Mines 1968

c Value estimated in 1987 in Ochavillo et al. 1989

d This study. CPUE in kg mn-hr-1 were translated to kg per trip by multiplying CPUE with average number of actual hours spent fishing each day.

Source: Hilomen and Jimenez (2001)

The many issues in the fisheries sector reflect a real need for an effective management strategy and a clear policy towards sustainable resource utilization.

Some of the issues raised by previous researchers include: overcrowding, illegal fishing, resource and habitat degradation (fish stock, coral reefs and mangroves), pollution and intense competition between user groups. The latter is highlighted by Silvestre and Pauly (1997) who gave as an example in San Miguel Bay in Camarines Sur, where 42% of the catch is done by trawlers representing 40 entities whereas 58% of the catch is done by individual fisher folk with simple fishing gears totaling to at least 2,300 people.

As in mining and forestry, these problems simply reflect the same issues of poor implementation of laws, and conflicting policies between LGUs and national agencies, among other things. None could be more glaring than the non-sustainable use of freshwater lakes for aquaculture and coastal mariculture. The carrying capacities of lakes, rivers and bays are exceeded, which result to increased siltation and pollution. David et al. (2009) provided evidence to link the increase in aquaculture, particularly nutrient flux, to occurrence of red tide in several bays of the country. The same increase in the nutrients particularly nitrogen and phosphorus, which mostly come from fish feeds, is linked to eutrophication and fish kills, and loss in biodiversity due to changes in the ecosystem chemistry.

What can be done? Under the Fisheries Code of 1998, it established the Fisheries and Aquatic Resources Management Councils (FARMCs). These are local consortia of stakeholders, the academe and representatives of LGUs and national agencies. It was set up as a consultative/recommendatory body, however, what can be done is to provide FARMCs the necessary powers and accrue funds to implement programs, patrol the coastal waters, regulate fisheries activities and assess penalties. Such councils can also be the means to capacitate fisher folk to upgrade their fishing implements and organize fishing expeditions to deeper seas. At the same time, FARMCs can balance resource utilization with the creation of necessary fish sanctuaries, coral reef and mangrove restoration, and implement bans during fish spawning. The creation of a Fisheries Management Fund, in which 25% is allocated to FARMCs and another 40% for the welfare of the fisher folks, is a step towards the right direction.³

Moreover, as the Philippines is an archipelago, the next government should adopt and seriously ensure the implementation of a national marine protected areas (MPA) network within a strengthened integrated coastal management (ICM) program. Certainly, the coastal or marine management of a municipality, no matter how successfully implemented within its jurisdiction, will be rendered futile if the surrounding coastal municipalities have no initiatives to protect the coastal and marine resources. This MPA network must be institutionalized while addressing the inter-linkages among associated watersheds, estuaries and

wetlands, and coastal seas, by all relevant national and local agencies. As it stands, the ICM strategy of the country is mandated only by an Executive Order with no clear allocation of budget.⁴

Solid Waste Management: Policies Must Allow for Advancing Technologies

In 2001, the Philippines passed a landmark bill that outlined the solid waste management agenda. Republic Act No. 9003 (RA 9003), or the Ecological Solid Waste Management Act aims to ensure public health and safety, promote the use of environmentally-sound waste disposal systems, and create a system of collection, transport, and disposal of garbage. It was, in many ways, successful in terms of educating the public on waste segregation and spurred campaigns for the use of better materials alternatives (e.g. paper over plastic and styrofoams) and community-level initiatives (e.g. composting, materials recovery facilities (MRFs)). Where RA 9003 is currently failing are in the following:

1. Implementation of the law, particularly in requiring all cities and municipalities to have access to a sanitary landfill;
2. Lack of funding mechanism for the National Solid Waste Management Commission; and
3. Exclusion of certain waste disposal technologies as non-environment friendly processes.

Section 10 of RA 9003 places the responsibility on the LGU to implement the law including the provision of finding a suitable landfill site. Obviously, this is difficult for highly urbanized cities like those in Metro Manila where spaces big enough for a landfill are rare. It is also impractical, and sometimes illegal, to locate it within a city where property costs are high. It is also a problem trying to ask neighboring provinces to take Metro Manila's waste because of the NIMBY (Not in my backyard) syndrome. The national or provincial government must assert its eminent domain mandate and intervene in this regard.

This lack of enforcement of the law owes primarily to a lack of funding. Since RA 9003 was passed into law in the year 2001, not a single centavo was allocated for the main policy-making body it created the National Solid Waste Management Commission (NSWMC). Under the law, the NSWMC is an agency under the Office of the President. Without the funding, however, the agency operates only

as a part of and supported by the Environmental Management Bureau of the Department of Environment and Natural Resources.

The exclusion of incineration as a matter of policy will also need to be revisited. The Philippines was one of the first countries to ban incineration and it is important to review why we chose not to burn our waste. Staunch opposition against incineration technologies, like waste-to-energy, by most environmental groups has limited the country's options. Although seen by the government as a viable and clean alternative to sanitary landfills given the advances in technology, new technologies does not mean doing away with the basics of reducing, reusing, and recycling materials. Below are the following reasons provided against incineration:

- Incineration is cost-ineffective;
- Release of harmful compounds such as heavy metals and dioxins; and
- Additional emission of greenhouse gases particularly carbon dioxide.

While valid, these “cons” need to be weighed against the current situation, in which dumpsites are found in each every city and municipality in the country.

On cost-ineffectiveness, the true cost of waste disposal is really expensive. Currently, the public is only paying for the hauling fee of their solid waste because no other costs are incurred for the operation of the dumpsites; thus, making it inexpensive. The true cost of waste disposal should include the maintenance and proper operation of sanitary landfills (e.g., gas collectors, monitoring for leaks, regular soil capping, etc.).

The release of harmful compounds argument is technically accurate. Dioxins are released through the burning of various plastic products whereas heavy metals come from waste materials with metallic components. But such harmful compounds are already being released in uncontrolled dumpsites and landfills, mainly through dumpsite leachate reaching the water table underneath. Castaneda et al. (2012) showed that leachate from the San Mateo landfill is entering the water table and is travelling several kilometres downstream. Leachates are laced with toxic organic compounds like polychlorinated biphenyls (PCBs) and heavy metals. In terms of the release into the atmosphere, methane is a natural by-product of rotting waste which is also a greenhouse gas.

An alternative is to go into the science of incineration. Shibamoto et al. (2007) showed through experiments that dioxins and other similar compounds polychlorinated dibenzo dioxins (PCDDs), polychlorinated dibenzo furans (PCDFs), and polychlorinated biphenyls (PCBs)) are only produced when burned

with the presence of chloride compounds. Dioxin formation is also reduced above a certain temperature. Since the height of incineration, cleaner burning technologies have been invented as well as attachments to scrub out unwanted compounds prior to any emission to the atmosphere.

In terms of CO₂ release through incineration, the highest CO₂ emission still comes from the transportation and energy sectors through the burning of fossil fuels. The percentage of potential CO₂ released through incineration pales in comparison. There are also new technologies that will have lower greenhouse gas emissions that need to be explored. Lastly, the country must also assess selective waste burning as a complement to landfilling waste which will maximize the benefits of incineration without sacrificing environmental protection.

Climate Change: Risk Management, Efficient Transportation and Practical Energy Mix is Our Contribution to the Global Solution

Beyond the increased global average temperatures which now has increased by 0.68 degree Celsius in the last 50 years,⁵ the impacts of climate change in the country may be more serious than just temperature adjustment. Climate change has been partially attributed to prolonged droughts and El Niño events, stronger typhoons, and massive floods.

On one hand, these corresponding impacts have been in existence prior to the issue of greenhouse gases affecting atmospheric conditions. Long before Typhoon Haiyan devastated the towns of Samar and Leyte in 2013, a similar storm surge event wiped out the fledgling towns of the same provinces in 1898. The floods associated to Tropical Storm Ondoy and Habagat events pale in comparison to the 1972 Great Floods of Luzon when a “virtual sea” connected Lingayen Gulf to Manila Bay. It is possible that natural calamities have intensified and have become more frequent in recent times due to climate variability.

Last December, nations converged in Paris for the Conference of Parties 21 under the UN Framework Convention on Climate Change. The main objective of the gathering was for all state parties to come up with a universally binding agreement on how to keep average global temperatures not to exceed 2 degrees Celsius increase (the Philippines is actually pushing for a non-exceedance of 1.5°C) from pre-industrial revolution temperatures. This is what scientists call as a climatological “tipping point” wherein atmospheric conditions will drastically change and spirals into a state that cannot anymore be corrected even with a decrease in greenhouse gas emission. The finality of the predicament warrants a global concerted effort.

Lowering our carbon emissions necessarily means looking at the transportation and the power sectors. The next government should thus focus on four fundamental initiatives:

Increase Renewables in the Energy Mix

Electricity production in the Philippines remains to be heavily sourced from fossil fuels, at a little more than 67% of the energy mix in 2014, almost 32% of which from coal.⁶ With the country's potential in natural energy sources, such as geothermal power, the movement in this direction should be logical. Other renewable sources such as biomass and the use of waste-to-energy likewise pose promising options. The introduction of more renewables, however, should be done with serious consideration of how it will burden consumers in terms of their power bills. Inefficiencies must therefore be corrected, mechanisms refined, and over taxation addressed.

Retrofit Fuels

Republic Act No. 9367 or the Biofuels Act mandates that all liquid fuels for motors and engines sold in the Philippines shall contain biofuels. This policy is much advanced than many other countries and therefore must be sustained. However, the local demand is still not being met by local suppliers and we continue to be a net-importer of the product. A concerted research and development program in increasing our biofuels output from traditional crops (e.g. coconut and sugarcane) and seeking potential new sources (e.g. sweet sorghum) must be prioritized.

Upgrade Transportation Infrastructure

Traffic congestion, a long-standing problem in Metro Manila and many Philippine cities, has serious implications on climate change. Obviously, the longer a vehicle stays on the road, the more emissions it creates and the more fuel it consumes. Perennially inadequate infrastructure therefore is not only inconvenient and economically disastrous, it has deleterious effects on the environment and even public health. Aside from improving road networks, it is high time that the government seriously invest in mass transit, which normally does not run on fossil fuels and is an efficient way of moving people in mega cities such as Metro Manila.

Disaster Risk Management

The Department of Science and Technology (DOST) Project Nationwide Operational Assessment of Hazards (NOAH) has provided critical data to the National Disaster Risk Reduction and Management Council (NDRRMC) in

every extreme weather event. This academe-led project has to be institutionalized and its coverage expanded. It is able to provide actionable information down to the barangay level in terms of weather forecast, flood and landslide hazards and responses such as where and when to evacuate.

Conclusion

A common theme in the problems facing resources utilization and waste management is the poor implementation of the law. The overarching strategy to solve this seems to be building the capacity of local stakeholder organizations and to allow them to govern their concerned sector within their political jurisdiction. This is true in strengthening the MMT for mining, FARMCs for fisheries, a similar set-up for forestry products and the provincial solid waste management board. Implementation of rules suffer when it is undertaken by a national agency because the work would be too broad being national in scope. It also does not work somehow if the one in charge is the city or municipality due to the lack of expertise and conflicts with national policies (e.g. land use conflicts).

A provincial level council with enough mandate might work. Such council would also benefit tremendously with the inclusion of the local academe as stakeholder to provide the necessary expertise. Needless to say, it would be this local council that should align their activities with national policies and should not in any way counter (e.g. local mining bans) such rules.

The next government should also consider the portfolio investment approach, in which areas open for resource utilization or waste disposal are pre-identified. With the paperwork done ahead of time, investors only need to bid on projects and they are already assured of hurdling all the approval levels.

There is also a need to review laws that may be obsolete; laws that go against each other; and laws that do not produce the desired policy effects. In the same vein, there is a need to revisit policies where there is no statute to fill existing gaps. The technical merits of these measures are paramount in such review and therefore the academe, being neutral and well-versed in the technical aspect of policies, should be tapped.

Lastly, the Philippines needs to contribute to the drive to keep global temperature increase down even if it is not a significant greenhouse gas emitter compared to developed countries. Towards this end, the next government should increase the renewables in the energy mix, retrofit our fuels, and improve our transportation infrastructure. Aside from these mitigation initiatives, climate

change resilience and adaptation must also be advanced through sound disaster risk, reduction, and management programs.

Policy Recommendations

As mentioned previously, a review of existing environmental policies must be undertaken to ensure that the desired management outcomes are attained. In particular, the following policies or laws must be revisited:

Executive Order No. 79

Revisit EO 79 particularly its provisions that are unclear in terms of definition and coverage.

Local Ordinances vs. National Laws on Mining and Gaps in Implementation

Provinces promulgated ordinances which ban mining or some form of it in spite of the Mining Act and other national laws. This conflict between the national agencies' mandate and the local government units' should be immediately resolved to provide a stable policy environment. Gaps in the implementation of the mining law such as the delay in the distribution of revenue shares to the local government unfairly deprive local communities of their right to be the first beneficiaries of mining operations in their areas. Illegal mining operations and the wanton damage resulting from non-compliance with environmental and safety regulations must be stopped by strengthening the capacity of regulatory agencies to strictly implement the law.

National Land Use Policy

The next government needs to promulgate a national land use plan that is primarily based on sound technical evaluation. This policy should serve as the master plan that defines the allocation, utilization, management, and development of our country's limited land resources without ignoring environmental and social considerations.

Executive Order No. 23 and the 1975 Forestry Code

Much like EO 79, the imposition of the log ban under EO 23 proved unsustainable as illegal logging proliferated and smuggled wood flooded the markets. This policy must then be discontinued and replaced with a

sustainable forest management policy. Amendment of the 1975 Forestry Code is also long overdue, to arrest the further decline of the country's forest cover. Again, a Sustainable Forest Management Law that espouses a selective log ban, and that is, more attuned to the economic and environmental contexts of today, is in order.

Integrated Coastal Resources Management (ICRM) Policy

It is imperative that we have a strong institutional strategy in the management of our coastal and marine resources. Legislating an ICRM policy, with a clear and implementable budget allocation, is the next necessary step. An important feature of this policy should be the establishment of marine protected areas network that is national in scope.

Republic Act No. 9003 and the Ban on Incineration

RA 9003 or the Ecological Solid Waste Management Act needs to be reviewed as the solid waste problem continues to mount 15 years after its enactment. The mandate to establish landfills may already be considered a gap in the case of metro centers where available and suitable land is scarce. Addressing this gap may require clearly defining what are permissible so as not to exclude alternatives such as incineration. The country should be able to utilize the best technology available, including waste-to-energy, but needs to ensure compliance with existing air quality standards.

Environmental Governance

More than looking at the policies, however, it is imperative for the next administration to adopt some form of environmental governance, to facilitate consensus-building among stakeholders toward the effective management of the country's natural resources.

A tri-sectoral approach, involving government, the private sector, and civil society, will provide a platform for collaboration among relevant stakeholders, all essential cogs in environmental policy-making and implementation. This inclusive approach will hopefully help in pinpointing where the fulcrum should stand between economic development and environmental protection.

While the three sectors will predictably forward their own interests, the next step lies in reaching a common ground, guided by the spirit of sustainable development. The status quo, in which there is private sector greed on one side, and hardline NGOs on the other, and government merely succumbing to whoever

applies more pressure, can no longer continue.

The next government must understand that problems concerning the environment are as cyclical as they are systemic. In the Philippines, the poor state of the environment has a direct impact on poverty and social inequality, particularly for a great majority of Filipinos whose livelihood depend on natural resources. And the poorer the population gets, the more pressure it exerts on natural resources. This cycle cuts across all sectors, industries, and communities.

All of us have a hand in the current environmental crisis. From how we live our day-to-day lives, each of us became part of a web that drives consumption beyond what the earth can withstand. As a result, our ecosystems have become imbalanced, which in turn result to extreme weather. This threatens our very survival if left unabated.

There is no recourse, therefore, but to believe in the power of collaboration. The next government must lead the way in harnessing the resources and innovation of the private sector, the knowledge of the academe, and the advocacy of NGOs; and build synergy from these. This is the only way towards a responsible stewardship of the environment that meets the needs of both present and future generations.

¹ Department of Environment and Natural Resources, Mineral Resources, <http://www.denr.gov.ph/index.php/component/content/article/16.html>.

² Mines and Geosciences Bureau, Mineral Industry Statistics (29 September 2015), <http://www.mgb.gov.ph/Files/Statistics/MineralIndustryStatistics.pdf>.

³ Republic Act No. 10654, An Act To Prevent, Deter And Eliminate Illegal, Unreported And Unregulated Fishing, Amending Republic Act No. 8550, Otherwise Known As "The Philippine Fisheries Code Of 1998," and For Other Purposes, Section 19, February 27, 2015.

⁴ Executive Order No. 533, Adopting Integrated Coastal Management as a National Strategy to Ensure the Sustainable Development of the Country's Coastal and Marine Environment and Resources and Establishing Supporting Mechanisms for its Implementation, June 6, 2006.

⁵ National Aeronautics and Space Administration, Global Climate Change, Vital Signs of the Planet <http://climate.nasa.gov/vital-signs/global-temperature/>.

⁶ Department of Energy, 2014 Philippine Power Sector Situationer, Figure 1. Installed and Dependable Capacity, <https://www.doe.gov.ph/power-and-electrification/philippine-power-sector-situationer>

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ADR Institute gratefully acknowledges the support of all those who have attended our series of fora with the end in view of developing this policy agenda, to wit:

Striking a Balanced Energy Mix, Ensuring Security and Affordability

The roundtable discussion on Energy was held on 05 June 2015 and was headed by Dr. Carlos Primo David.

Energy Regulatory Commission's Executive Director Atty. Francis Saturnino Juan; Philippine Chamber for Commerce and Industries' Director for Energy and Power, Mr. Jose Alejandro; and Consultant of TransAsia Oil and the Energy Development Corporation and member of the National Renewable Energy Board, Ms. Rosario Venturina, representing the public sector, private sector and practitioners' sector, respectively, were the discussants during said roundtable discussion.

Energy industry players and stakeholders, civil society groups and the public sector were well represented during said roundtable discussion: Chairman of the Committee on Energy of the House of Representatives, Rep. Reynaldo Umali; then Undersecretary of the Department of Energy (now, Acting Secretary of the Department of Energy), Usec. Zenaida Monsada; former Acting Secretary of the Department of Energy, Mr. Jose Ibazeta; former Undersecretary of the Department of Energy, Mr. Jose Layug; President of the Retail Electricity Suppliers Association of the Philippines, Mr. Raymond Roseus; Vice Chairman of the Foundation for Economic Freedom, Mr. Romeo Bernardo; Vice President for Corporate Affairs of the National Power Corporation, Mr. Urbano Mendiola; Lead Convenor of Citizenwatch, Atty. Teofilo Abejo; President of the Chamber of Mines of the Philippines, Mr. Philip Romualdez; Assistant Vice President and Head of Public Information Office of the Manila Electric Company, Mr. Joe Zaldarriaga; Committee Secretary of the House of Representatives Committee on Energy, Mr. Efren Cortez; Executive Director of the Joint Congressional Power Commission, Atty. Oscar Ala; Mr. Juan Eugenio Roxas, Director of the Philippine Independent Power Producers Association and members of the diplomatic corps were likewise in attendance.

Strategic Policy Directions for Governance Reform

The roundtable discussion on Governance which was held on 16 June 2015 was headed by Dr. Francisco Magno. Dr. Magno was joined by the following Discussants: National College of Public Administration and Governance (UP) Professor, Dr. Danilo Reyes; Governor-in-Charge for National Issues Committee of the Management Association of the Philippines, Mr. Gregorio S. Navarro; and Chairman of the Consortium on Electoral Reforms, Mr. Ramon Casiple.

Other guests were distinguished members of the diplomatic corps, academe, civil society groups such as Senior Deputy Country Representative of the Asia Foundation, Mr. Ky Johnson; Executive Director of Transparency International, Ms. Cleo Calimbahin; Mr. Manuel Aquino of the Congressional Policy and Budget Research Department of the House of Representatives; Secretary General of the Eastern Regional Organization for Public Administration, Dr. Orlando Mercado; Research Programs Manager of Makati Business Club, Mr. Patrick Chua; Professor at the Ateneo de Manila University Political Science Department, Professor Gino Trinidad; Chair of the De La Salle University Political Science Department, Dr. Eric Batalla; Director at the Innovation at the Base of the Pyramid in South East Asia Program, Mr. Segundo Romero; Former Commission on Information and Communications Technology, Mr. Ivan Uy; President of Good Governance Advocates and Practitioners of the Philippines, Mr. Gil Gonzales; Legal and Corporate Affairs Director of Microsoft Philippines, Atty. Raul Cortez; President of the Federation of Philippine Industries, Mr. George Chua; Messrs. Xerxes Nitafan and Andres Mortel from the Senate Economic Planning Offices; and youth leaders from different universities.

Advancing Sound Resource Management as a Requisite for Sustainable Development

The roundtable discussion on Environment was held on 08 July 2015 was attended by the different stakeholders on environment, from the mining sector to the fisheries sector. This roundtable discussion was headed by Dr. Carlos Primo David. Former Regional Executive Director and Assistant Secretary of the Department of Environment and Natural Resources and Forester and Associate Professor of the University of the Philippines, Prof. Marlo Mendoza; and Chairman of the Chamber of Mines of the Philippines, Mr. Artemio Disini were the discussants during said roundtable discussion.

Other guests were distinguished members of the diplomatic corps, academe, civil society groups, business groups and public sector, such as the National

Coordinator of Extractive Industries Transparency Initiative, Ma. Teresa Habitan; President of the Chamber of Mines of the Philippines, Mr. Philip Romualdez; President of Solid Waste Management Association of the Philippines, Ms. Grace Sapuay; President of the Cement Manufacturer's Association of the Philippines, Mr. Ernesto Ordoñez; Senior Vice President for Corporate Affairs, Atty. Michael Toledo and Corporate Environment Manager Abner Silorio of Philex Mining Corp.; Executive Director of the Philippine Wood Producers Association, Ms. Maila Vasquez; Mr. Eligio Ildefonso and Raul Hardin of National Solid Waste Management Commission; Assistant Director Drusila Esther Bayate and Ms. Melanie Guera of the Bureau of Fisheries and Aquatic Resources; Secretary General of Philippine Business for Environmental Stewardship, Atty. Lysander Castillo; President of Atlas Consolidated Mining and Development Corporation, Mr. Adrian Ramos; Vice President for Legal and Policy of the Chamber of Mines of the Philippines, Atty. Ronald Recidoro; Chairman of the Philippine Associated Smelting and Refining Corporation, Mr. Angel Veloso, Jr.; Faculty at the De La Salle University Political Science Department, Prof. Ma. Ella Oplas; Executive Director of the Ramon V. Del Rosario Center for Corporate Social Responsibility at the Asian Institute of Management, Prof. Francisco L. Roman, Jr.; Ms. Yodi Marso and President, Ms. Patricia Bunye of DIWATA-Women in Resource Development, Inc.; Vice President for Public Affairs and Communications of Coca-Cola Philippines, Atty. Adel Tamano; Strategic Communications Officer of the Meralco Power Gen. Corporation, Mr. Jason Torres; Chair of the Climate Change, Disaster Prevention and Sustainability Committee of the Management Association of the Philippines, Dr. Corazon Claudio; and President of the Canadian Chamber of Commerce, Mr. Julian Payne.

Foreign Direct Investment, Exports, and Philippine Economic Growth

The convenor for this roundtable discussion on trade and investment, which was held last July 15, 2015 was Dr. Epictetus Patalinghug. The Discussants were the President of the Philippine Institute for Development Studies, Dr. Gilbert Llanto; University of the Philippines' School of Economics Professor, Dr. Ramon Clarete, Honorary Chairman of the Philippine Chamber of Commerce and Industries, Mr. Donald Dee; and Head of Tax and General Counsel of SGV & Co., Atty. Wilfredo Villanueva.

Other guests were the Director of Department of Trade and Industry Export Marketing Bureau (EMB) Director Senen Perlada; Deputy Executive Director of Export Development Council, Ms. Emmarita Mejares; former Department

of Trade and Industry Secretary and Chair for National Competitiveness Committee of the Management Association of the Philippines, Amb. Cesar Bautista; President of Foundation for Economic Freedom, Mr. Calixto Chikiamco; President of Employers Confederation of the Philippines, Mr. Edgardo Lacson; Core Faculty of the Washington Sycip Graduate School of Business of the Asian Institute of Management, Prof. Patricia Lontoc; Special Assistant at the Office of the Undersecretary of International Economic Relations of the Department of Foreign Affairs, Mr. Marcos Punsalang; Principal Assistant at the Office of the Undersecretary for International Economic Relations of the Department of Foreign Affairs, Ms. Joyce Camacho; President of Minimal Government Thinkers, Inc., Mr. Bienvenido Oplás, Jr.; Fellow at the Foundation for Economic Freedom, Mr. Gary Olivar; Vice Chairman of the Philippine Trade Foundation, Mr. Jesus Pineda; President of the Philippine Trade Foundation, Mr. Antonio Lopa; President of Cathay Land, Mr. Jeffrey Ng; President of DFNN, Mr. Raymond Garcia; CEO of BIOEQ Energy, Mr. Job Ambrosio; President of the Canadian Chamber of Commerce, Mr. Julian Payne; ASEAN Coordinator at the Philippine Chamber of Commerce and Industries, Ms. Donna Angulo; President of the Federation of Philippine Industries, Mr. George Chua; Professor at the Ateneo de Manila University, Department of Economics, Prof. Alvin Ang; and distinguished members from the diplomatic corps.

***The Aquino Administration's Foreign Policy Agenda:
The "Return" of Geopolitics in Philippine External Relations***

The roundtable discussion on international relations was held last 29 July 2015 and was presided over by Dr. Renato De Castro, who was joined by Ateneo de Manila professor Dr. Alma Salvador, who spoke on foreign policy vis-à-vis ASEAN integration and the Code of Conduct; Dean Raul Pangalangan, who was recently appointed to the International Criminal Court and spoke on the issue of territorial disputes; Babe Romualdez who shared thoughts on diplomatic relations.

Prominent members of the academe such as Assistant Professor at the De La Salle University Political Science Department, Mr. Richard Heydarian; Assistant Professor at the De La Salle University International Studies Department, Dr. Severo C. Madrona, Jr.; Professor at the Department of Political Science of the University of the Philippines, Amado Mendoza; Columnist of the Philippine Star, Dr. Elfren Cruz; Asec. Minda Cruz, Asec. Charles Jose, Senior Special Assistant Hellen Dela Vega, Chief Coordinator Atty. Theresa de Vega and Special Assistant Angelito Nayan of the Department of Foreign Affairs; Director for Policy Studies

at the National Security Council, Ms. Carmina Acuña; Deputy Director General of the Foreign Service Institute, Mr. Julio Amador III; Chairman of the Board of the Institute for Strategic and Development Studies, Mr. MC Abad, Jr.; Former Secretary of National Defense Dr. Orlando Mercado; Director-General of the Foreign Service Institute, Mr. Claro Cristobal; Part time Faculty at the Political Science Department of the Department De La Salle University, Mr. Robin Garcia; Committee Secretary on Foreign Relations of Senate of the Philippines, Ms. Putli Suharni C. Samanodi-Candao; Chairman of the Committee on Foreign Affairs at the House of Representatives, Rep. Al Bichara; and members of the diplomatic corps from U.S., British, Japan and Australian Embassies were in attendance.

Special thanks to our Foreign Affairs Secretary Albert Del Rosario for taking the time to attend said forum.

Decentralization Policy Reform Agenda for Local Development

The roundtable discussion on local governance was held last 05 August 2015. It was presided over by Dr. Francisco Magno, who was joined by the Director of the Center for Local and Regional Governance of the National College of Public Administration & Governance, Dr. Erwin Alampay; National Chairman of the League of Cities of the Philippines, Mayor Oscar Moreno; and Secretary-General of the Philippine Chamber of Commerce and Industries, Mr. Crisanto Frianeza, as Discussants.

Other guests were distinguished members of the diplomatic corps, academe and civil society groups, such as Director of the Philippine Center for Islam and Democracy, Ms. Amina Rasul; Mr. Joel Lasam of the Department of Interior and Local Government; Professor at the Ateneo School of Government, Dr. Gabriel Lopez; member of the International Center for Innovation, Transformation and Excellence in Governance (INCITEGOV), Ms. Ma. Remedios Mapa-Suplido; Principal Public Management Specialist at the Asian Development Bank, Mr. Juan Luis Gomez; Chief of Staff of the Public Services Labor Independent Confederation, Ms. Erma Montebon; Trustee of the Philippine Trade Foundation, Ms. Elizabeth Lee; Director Manuel Aquino and Patricia Manalo of the Congressional Policy and Budget Research Department of the House of Representatives; and youth leaders from different universities.

Poverty, Inequality, and Inclusive Growth

This roundtable discussion on national economy which was held last 12 August 2015, was presided over by Dr. Epictetus Patalinghug. The Discussants were the

Senior Research Fellow of the Philippine Institute for Development Studies, Dr. Vicente Paqueo; Founder & President of Minimal Government Thinkers, Inc., Mr. Bienvenido Oplas, Jr.; Co-Chair of the Technical Working Group on Labor and Social Policy Issues of the Employers Confederation of the Philippines, Mr. Ferdinand Diaz.

Other participants were distinguished members of the academe such as former National Economic and Development Authority Director General and Professor at the University of the Philippines School of Economics, Dr. Gerardo Sicat; former professor and dean of the College of Business Administration of the University of the Philippines, Mr. Cesar Virata; fellow at the Foundation of Economic Freedom, Mr. Romulo Neri; Dean of the University of the Philippines School of Labor and Industrial Relations, Dr. Jonathan Sale; Chairman Emeritus of the Federation of the Free Workers, Atty. Allan Montaño; Senior Health Specialist at the Asian Development Bank, Dr. Eduardo Banzon; Senior Research Fellow at the Philippine Institute for Development Studies, Dr. Celia M. Reyes; Vice-Chairman and Chief Operations Officer of the Wallace Business Forum, Mr. Benvenuto Icamina; members of the Senate Economic Planning Office namely, Executive Director Merwin Salazar, Director Xerxes Nitafan, Director Maria Cristina Pardalis, and Andre Mortel; Director of the Congressional Policy and Budget Research Department of the House of Representatives, Mr. Manuel Aquino; and a number of members of the diplomatic corps from New Zealand and British Embassies.

***A 21st Century Philippine National Security Agenda:
The Aquino Administration's Efforts for Developing a Credible Defense Posture***

This roundtable discussion was held last August 27, 2015 and was presided over by Dr. Renato De Castro, who was joined by the following Discussants: former Chairman of the Committee on National Defense of the House of Representatives, Mr. Roilo Golez, Former Senator and Secretary of National Defense, Dr. Orlando Mercado; National Defense College of the Philippines' Professor, Dr. Amanda Almase; and President of the Management Association of the Philippines, Mr. Francisco Del Rosario.

Other participants were: Former Director of the Visiting Forces Agreement Commission, General Edilberto Adan; Deputy Director General Vicente Agdamag and Director Lorenzo Clavejo of the National Security Council; Captain Alberto Cruz of the Philippine Navy and Lieutenant Colonel Cesar Molina of the Philippine Army; Colonel Antonio Parlade, J3 Executive Officer of the Armed

Forces of the Philippines; Chairman of the Board of the Institute for Strategic and Development Studies, Mr. MC Abad, Jr.; De La Salle University Assistant Professor, Ms. Charmaine Misalucha; Director-General of the Foreign Service Institute, Mr. Claro Cristobal; Principal Assistant at the Maritime and Ocean Affairs Office of the Department of Foreign Affairs, L.V. I. De Guzman; Assistant Professor at the De La Salle University, Mr. Francis Domingo; Director for Policy Studies at the National Security Council, Ms. Carmina Acuña; Deputy Country Representative at the Asia Foundation, Ms. Maria Isabel Buenaobra; Partner at the Quisumbing Torres, Mr. Felix Sy; President of DFNN, Mr. Raymond Garcia; President of Cathay Land, Mr. Jeffrey Ng; Atty. Edsel Tupaz from the Office Senator Grace Poe; member of the Philippine Trade Foundation, Mr. William Co; and members of diplomatic corps from the Embassies of the United States, Australia and Japan.

Lastly, we would like to thank the following for their hard work, diligence and dedication: ADRI's Executive Director, Atty. Katrina Clemente and Deputy Executive Director, Ms. Angelica Mangahas, who served as the editorial staff headed by Mr. Orlando O. Oxales; and our design consultant Ms. Carol Manhit, for the publication lay-out and cover design.

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Since 1991, Prof. Manhit has been a member of the Faculty and a former Chair of the Political Science Department and a Senior Fellow of the Jesse M. Robredo Institute of Governance (JMRIG) at the De La Salle University, Manila. He has authored numerous papers on good governance, political and electoral reforms and educational reforms. He obtained his Master’s Degree in Public Administration and a Bachelor’s Degree in Philippine Studies major in Political Science and History from the University of the Philippines. He specializes in Strategic Public Management, Legislative Research, and Governance Reforms.

His research interest and field of specialization had led him to pursue active involvement in legislation, bureaucratic work and civil society advocacy. He served as Undersecretary for External Affairs and Special Concerns of the Department of Education, Culture and Sports from 1998 to 2001 and Deputy Secretary for Administration and Financial Services of the Philippine Senate from 1996 to 1998. After his government service in 2001, he became involved with different consortiums and networks of civil society groups pushing for reforms in the areas of governance, electoral process, government procurement, and constitutional change.

He has extensive experience in policy and legislative research, having been involved in the 8th, 9th, 10th and the 12th Congress as a Chief of Staff and senior policy research consultant in the following Committees in the Philippine Senate: Education, Agriculture, Economic Affairs, Social Justice and Electoral Reforms, Constitutional Amendments and Revision of Laws, under the Chairmanship of former Senate President Edgardo J. Angara. Since 1987, he has been involved in different capacities in all national elections – from policy consultant to campaign strategist.

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Dr. Renato De Castro is a Trustee of the ADR Institute. He is a full professor in the International Studies Department, De La Salle University, Manila. He is the holder of the Charles Lui Chi Keung Professorial Chair in China Studies. He was

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Dr. Epictetus E. Patalinghug is a Trustee of the ADR Institute. He is a Professor Emeritus of Economics and Finance at the Cesar E.A. Virata School of Business of the University of the Philippines. He teaches macroeconomics and the financial system, managerial economics, international finance, financial sector regulation and ethics, financial research, industrial organization, competitive and industry analysis, and government regulation and public policy. He obtained his Ph.D. in Economics at the University of Hawaii at Manoa and taught at their College of Business Administration before joining UP in 1981. He was a Member of the Tariff Commission in 1996-1997 and participated in the formulation and discussion of competition policy for the APEC member economies. He was the past Director of CBA's Business Research and Publications Program and Director of its Doctoral Program. He served as the editor of the Philippine Review of Economic and Business and the Philippine Management Review and Consultant to the Board of Investments which is in charge of granting investment incentives and in the formulation of the Country's Investment Priorities Plan. He was awarded the Outstanding Achievement Award in the Social Sciences by the National Research Council of the Philippines in 2009. He also managed several consulting projects funded by USAID (U.S. Agency for International Development), Asian Development Bank (ADB), Japan Bank for International Cooperation, and the World Bank. He has published several books and articles on competition policy, privatization, productivity and competitiveness, electric power industry regulation, retail trade industry liberalization, relationship between crime and unemployment and the prospects of the East ASEAN Growth Area, among others.

Dr. Carlos Primo C. David is a Trustee of the ADR Institute, whose area of expertise is Global Environment and Energy. He is a licensed geologist and professor of Geology and Environmental Science in the University of the Philippines. He is a project leader of the Department of Science and Technology's Project NOAH. He graduated with a degree in Geology and earned his Masters in Geology at the University of the Philippines. He obtained his Ph.D. at Stanford University with a degree on Environmental Science and Geology. Dr. David is also the Executive Director of Department of Science and Technology's Philippine Council for Industry, Energy and Emerging Technology Research and Development.

Dr. Francisco A. Magno is a Trustee of the ADR Institute. He is likewise the President of the Philippine Political Science Association. Concurrently, he is the Director of De La Salle University – Robredo Institute of Governance and an Associate Professor of Political Science in De La Salle University. His expertise includes Political Science, Development Studies and Comparative Politics. Most of his papers include research on policy analysis, local government, local development and environmental studies. He earned his Bachelor of Arts and Masters in Political Science at the University of the Philippines. He obtained his Ph.D. in Political Science at the University of Hawaii.



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