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The Philippines: September 2016 update

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Summary

On 9 May 2016 the 71 year-old Mayor of the southern city of Davao, Rodrigo Duterte, won a decisive victory in the presidential election in the Philippines, defeating his main opponent, Mar Roxas. Rodrigo Duterte stood on a strong 'law and order' platform, pledging to transfer to the national level the tough approach to criminals he had taken over the years in Davao – especially those involved in the drugs trade – which critics argue extended to encouraging a 'shoot-to-kill' policy by both the security forces and private vigilantes. He said he would wipe out crime across the country within six months of taking office.

Since the new president was inaugurated at the end of June 2016, security issues have dominated the political scene.

The most recent official figure for the number of people killed in the context of the 'war on drugs' since President Duterte took office is just over 3,100 people, about one-third of whom have been killed by the police.

Concern about the level of extrajudicial killings has led to widespread protests at home and abroad. Leading the domestic protests is Senator Leila de Lima, a former Justice Secretary during the Benigno Aquino presidency, who is chairing a parliamentary investigation into the anti-drugs campaign.

Duterte also promised during the election campaign to bring to fruition the peace processes which his predecessor, Benigno Aquino, had launched with Communist and Islamist rebels in Mindanao and the southern islands, one of the poorest parts of the country. These had lost momentum. Talks have duly resumed and there are cautious grounds for optimism.

Meanwhile, the army has intensified operations against the Islamist terrorist group Abu Sayyaf, which continues to carry out attacks and kidnappings in the south.

Duterte had relatively little to say directly about the economy during the election campaign, but did pledge that he intended to shift power away from "Imperial Manila" and towards the provinces by introducing a federal system of government.

He also pledged to do more to uplift the poor in the Philippines, identifying himself as a leader who would challenge the power of the country's oligarchy if elected.

Soon after President Duterte took office, an Arbitral Tribunal under the Convention on the Law of the Sea passed judgment in a case brought by his predecessor challenging China's territorial and maritime claims in the South China Sea. The ruling has widely been viewed as a victory for the Philippines. However, Duterte's economic and foreign policies appear oriented towards improving relations between the two countries.

At the same time, he has sometimes seemed lukewarm towards the US, with which the Philippines has long had a very close relationship. Duterte has made a number of unflattering statements about senior US officials, including President Obama, and has asserted that the Philippines will pursue a more independent foreign policy. But it is unlikely that the Philippines under its new president will entirely tear up decades of military and security cooperation with the US.

Other unguarded remarks have left observers worrying that President Duterte could prove to be a diplomatic 'loose cannon' in what is a volatile part of the world.

1. Politics

1.1 Enter Rodrigo Duterte – the ‘punisher’

On 9 May 2016 the 71 year-old Mayor of the southern city of Davao, Rodrigo Duterte, won a decisive victory in the presidential election, defeating his main opponent Mar Roxas by 38.5% to 23%. The outgoing president, Benigno Aquino III, who could not stand again under the country’s Constitution, strongly opposed Duterte’s candidacy, but was unable to prevent his victory.

Rodrigo Duterte stood on a strong ‘law and order’ platform , pledging to transfer to the national level the approach to criminals he had taken over the years in Davao – especially those involved in the drugs trade – which critics argue extended to encouraging a ‘shoot-to-kill’ policy by both the security forces and private vigilantes. He said he would wipe out crime across the country within six months of taking office. He also promised to restore the death penalty.

All of this chimed with a significant proportion of the electorate, which noted that Davao had become the safest city in the Philippines. People were also attracted by the fact that he had not enriched himself as Mayor and led a modest life. He said that he would not live in the presidential palace if elected.

Duterte also promised to bring to fruition the peace processes which Aquino had launched with Communist and Islamist rebels in Mindanao and the southern islands, one of the poorest parts of the country. These had lost momentum recently.

Duterte had relatively little to say directly about the economy, but did pledge that he intended to shift power away from “Imperial Manila” and towards the provinces by introducing a federal system of government.¹ He also pledged to do more to uplift the poor in the Philippines, identifying himself as a leader who would challenge the power of the country’s oligarchy if elected.

The new president was sworn in for a six-year term at a low-key inauguration on 30 June. Since then, security issues have dominated the political scene (see below).

Rodrigo Duterte’s campaign was characterised by remarks which provoked outrage among some sectors of Filipino society and many international commentators, some of whom described him as the Philippines’s version of Donald Trump. For example, he made a joke about an Australian woman who was raped and killed in 1989 and defied calls for him to apologise, including from the official Human Rights Commission.²

The new president continued in this forthright vein after taking office. Foreigners were again prominently in his sights. A visit by US Secretary

¹ “Rodrigo Duterte sworn in as Philippines president”, *Guardian*, 30 June 2016

² “Philippines presidential frontrunner accused of joking about Australian woman who was raped and had her throat slit”, *Independent*, 18 April 2016

of State John Kerry passed off smoothly in late July, but in August – as the number of those killed in his ‘war on drugs’ quickly mounted – he declared the UN “stupid” after it had criticised the policy and briefly threatened to withdraw from the organisation. Senior US officials have also felt the lash of his tongue. He began by insulting the US Ambassador, Philip Goldberg, for allegedly interfering against him during the presidential election campaign.³ He then went on to call President Barack Obama a “son of a bitch” – although he later denied that he had ever said it and insisted that he bore no animosity towards the US president.

Despite reports that Obama had decided not to meet him during the ASEAN Summit in early September, the two did so briefly on the 8th. The White House would say only that the two exchanged “pleasantries”.⁴

Predictably, these incidents raised questions amongst some analysts about future bilateral relations. Recent statements by President Duterte about the Philippines-US security relationship have further heightened anxieties (see below).

³ “Philippines’ president Rodrigo Duterte calls US Ambassador a ‘gay son of a whore’”, *Independent*, 11 August 2016; “Philippines president threatens to quit ‘stupid’ UN in foul-mouthed tirade over war on crime”, *Daily Telegraph*, 21 August 2016

⁴ “Barack Obama meets Duterte briefly despite insults”, *Agence France-Presse*, 8 September 2016

2. Security

The Philippines is significantly smaller than the majority of its regional neighbours, but it comprises over 7,100 islands and has the third largest coastline in the world. From a regional perspective, the Philippines has long relied on the US for its security. Like its neighbours, the Philippines has a number of ongoing territorial disputes in the South China Sea and the surrounding region, in particular with China. But it is internal security, and in particular counter-insurgency operations in Mindanao and the southern islands, that have dominated strategic thinking. Newly added to this mix is President Duterte's controversial 'war on drugs'.

2.1 The 'war on drugs'

The most recent unofficial figure for the number of people killed in the context of the 'war on drugs' across the country since the end of June is 3,500.⁵ The most recent official figure, published in mid-September 2016, is just over 3,100 people, about one-third of whom were killed by the police.⁶

Concern about the level of extrajudicial killings has led to widespread protests at home and abroad. Leading the domestic protests is Senator Leila de Lima, a former Justice Secretary during the Benigno Aquino presidency, who is chairing a parliamentary investigation into the campaign.

The *Financial Times* provides a flavour of how the 'war on drugs' has been operating on the ground:

There are at least three ways to die in the Philippines' war on drugs.

The first is the botched police operation: resisting arrest, the suspect is gunned down by officers.

Second, the vigilante killings: a masked duo, typically riding tandem on a motorcycle, pull up alongside the target for a point-blank assassination.

And then there are the mysteries - the bodies dumped down dark alleys, hog-tied, wrapped in plastic packaging and bearing a cardboard calling card: "I am a drug pusher."

In this war, death comes fast and it comes frequently. Since new president Rodrigo Duterte launched the crackdown two months ago, about 2,000 suspected drug users and pushers have been killed.

Mr Duterte christened his presidency by promising a six-month campaign that would kill 100,000 drug users. So many bodies would be dumped in Manila bay that the "fish will grow fat", he said.

Two months on, the majority of the victims - typically poverty-stricken meth addicts or low-level peddlers - die at the hands of the vigilante killers, who have exploited the president's campaign

⁵ "President implicated in 'gangland' killings", *Daily Telegraph*, 16 September 2016

⁶ "Duterte to extend drug war as 'cannot kill them all'", *Agence France Presse*, 19 September 2016

to settle scores and silence snitches. According to police figures released on Thursday, 1,051 have died at the hands of such death squads. The remaining 929 were killed in police operations, supposedly after resisting arrest.

"Can we call this a state-sanctioned policy? At the very least, it is state inspired," says senator Leila de Lima, who is heading a committee hearing into the extrajudicial killings.

[...] Nearly 700,000 drug abusers have already handed themselves over to the authorities rather than live in fear. Yet even those who surrender and enter rehab programmes are not safe.

Gilbert Camiguel, a 43-year addict, was shot four times as he drank coffee outside his home in the impoverished West Crame neighbourhood of Quezon City. A month earlier, he had turned himself in to local authorities in a bid to get clean. He died metres from his doorstep last Friday.

Police point the finger at crime syndicates, while drug pushers say the police are involved. Everyone senses the atmosphere of "cleansing".

"I am scared. I am afraid for my safety. If I talk and reveal names, we could be in danger," says an acquaintance of Mr Camiguel.

Community leaders are also worried. They fret that citizens will soon begin arming themselves in self-defence, leading to even more bloodshed.

"When vigilantes come and the police are not there, that is the time when people will start to protect themselves. Then there will be more violence and blood," said Huberto Nonato of the West Crame neighbourhood.

Yet despite the death toll, the anti-drugs campaign and its architect remain extraordinarily popular, with many Filipinos crediting the president with reducing crime and tackling an entrenched culture of impunity and corruption.

Businesses are also bullish. Far from the downtrodden slums, the corporations of Manila seem confident that Mr Duterte's strongman politics and reformist agenda can keep growth close to 7 per cent.

For the president's supporters, the lack of due process is a necessary evil to rid the country of its meth problem - a scourge that, some say, Mr Duterte is using to capture the public's imagination.

"What we have seen with Duterte is a very shrewd, Machiavellian handling of the public pulse. He managed to latch on to the crime issue . . . and before you knew it, people agreed [with him]," says a member of a rights group, who spoke anonymously due to safety concerns.

"There was no talk of crime or drugs before the election cycle. We didn't feel like we were besieged by the issue."

Yet now there are growing fears that the crackdown is part of a longer-term tactic to allow the president to consolidate power by eliminating opposition - or at least bring opponents on side.

"All the state institutions have been either threatened or compromised. Even the media has been threatened . . . He doesn't have to declare martial law. He has a blank cheque to do what he wants," says the rights campaigner.

Ms De Lima stands alone in defiance. Now Mr Duterte has turned his ire on her, accusing the former justice secretary of involvement in the drugs trade.

"The president is on a rampage," Ms De Lima says. "The country has not seen anything of the sort."

Meanwhile, the police are under pressure to show results, but big busts and high-profile arrests have been lacking.

Both the police and Mr Duterte claim the big fish have fled and they are looking directly at China.

Chinese crime syndicates have long been key players in the Philippine drugs trade. Much of the meth in the Southeast Asian nation comes from Guangdong province in southern China.

But after busting tens of meth labs last year, police say they are now only seizing small quantities from low-level players. "If you can get half a kilo today, you're very lucky," says one senior anti-narcotics officer.

Yet morale among the police remains high. Flush with financial resources, they feel emboldened to investigate high-ranking officials that might once have been considered protected.⁷

In mid-September 2016, a former vigilante called Edgar Matobato told Leila de Lima's inquiry that President Duterte had ordered the killings of more than 1,000 people between 1988 and 2013 while mayor of Davao City, and that he had personally shot dead a justice department official. Matobato also alleged that Duterte had once issued an order to kill de Lima at a time when she was chairing the Human Rights Commission, which was investigating the possible involvement of the then mayor in extrajudicial killings in Davao City. President Duterte has denied all such allegations and claimed that the Human Rights Commission inquiry was eventually abandoned due to lack of evidence.⁸

On 18 September 2016, President Duterte said that he wanted to extend the 'war on drugs' for another six months in order to finish the job.⁹

2.2 Peace efforts in the south

The Philippines has for some time faced a small-scale threat from Islamist terrorism in Mindanao and the southern islands in the form of Abu Sayyaf – although many observers view the group as a primarily criminal enterprise that is most interested in kidnapping and ransoms.

The security forces have stepped up operations against the group in recent months, reportedly killing dozens of its fighters. On 2 September, the group reminded Filipinos that it still posed a threat by detonating a bomb in a night market in Davao City, killing 14 people and wounding

⁷ "Bodies pile up in Duterte's popular war on drugs", *Financial Times*, 3 September 2016

⁸ "President implicated in 'gangland' killings", *Daily Telegraph*, 16 September 2016

⁹ "Duterte to extend drug war as 'cannot kill them all'", *Agence France Presse*, 19 September 2016

70. In response, President Duterte declared a 'state of lawlessness' – which did not, he later said, amount to the imposition of martial law.¹⁰

While the group has been linked with al-Qaeda in the past, some Abu Sayyaf commanders have declared their loyalty to Islamic State/Daesh. Abu Sayyaf's claim of responsibility for the bomb attack is yet to independently confirmed.

On 17 September 2016, a Norwegian hostage who had been kidnapped by Abu Sayyaf was released following negotiations. Kjartan Sekkingstad was one of four people captured by the group in September 2015, two of whom had been beheaded by it. The other had also been released.

President Duterte has kept his promise to resume negotiations with Communist rebels in the south. Former president Aquino had suspended talks in 2013. There were talks in Oslo with the National Democratic Front, which includes the Communist Party and the New People's Army, in late August – the first meeting since 2012. Another round of talks has been agreed for October.

In addition, the Government and the Moro Islamic Liberation Front (MILF) have held talks aimed at re-energising the peace process in the south. One agenda item was increasing the membership of the 'Bangsamoro Transition Committee' so that it is more inclusive. Bangsamoro is the name of the proposed new, more autonomous region in the south, replacing the current administrative region of Mindanao.¹¹

In the context of these renewed talks there is supposed to be a new version of the Bangsamoro Basic Law, which President Duterte hopes will be introduced as part of the Philippines' move towards a federal system of government. Aquino tried to pass such a law after securing a peace deal with the MILF in 2014 but had been unable to get it through parliament before he left office. Some politicians have been sceptical of the good faith of the armed groups. Only time will tell if President Duterte will be more successful than his predecessor was. The EU has been a strong supporter of the negotiations process.

The International Crisis Group recently published an analysis of where things stand on the peace process in the south of the country. Below are some extracts:

The Duterte administration inherited a peace process that had stalled when Congress failed to pass enabling legislation that would have created an autonomous region for Muslims in key parts of Mindanao and the southern islands. The proximate cause of the political resistance in Manila was a botched police raid on a radical splinter group in January 2015 in which 44 policemen died, but there were other problems including questions over the constitutionality of some of the provisions and the fact that the

¹⁰ "'State of lawlessness' declared after Philippines market bomb kills 12", *Belfast Telegraph*, 3 September 2016

¹¹ "Philippines peace process: Duterte playing for high stakes", International Crisis Group, June 2016

negotiating process had been dominated by a single southern group, the Moro Islamic Liberation Front (MILF).

President Duterte is making good on his campaign promise to push the process forward. He has promised to abide by the deals signed by the Aquino administration; appointed a close confidante from his Davao days, Jesus Dureza, to run the process; and reached out to other groups, particularly the leader of the other main Muslim insurgent group, Nur Misuari of the Moro National Liberation Front, who has a long history of disagreement with MILF.

[...] Government negotiators have suggested to Crisis Group that they may be willing to split an autonomous Bangsamoro in two, with MILF de facto running the portions on Mindanao and MNLF running the islands of Basilan, Sulu and Tawi-Tawi. This would be a retrograde step that would both undermine the economic viability of the new entity and necessitate lengthy discussions of the modalities of collaboration between the two groups.

[...] There are three threats to a successful conclusion. The first is President Duterte's ability to push the legislation through. At present he is almost unchallenged in Congress, but his agenda has upset a broad range of vested interests and it would be naïve to think that they will not strike back. Derailing a headline initiative like the Bangsamoro legislation would be an attractive way of weakening Duterte while hiding behind professions of patriotism

The second threat is disaffection in the South. MILF members say, and there is no reason to doubt them, that they and their armed cadres are fully committed to the peace process, but they have only conditional support from Moro youth. There have been at least three main peace agreements between Manila and the insurgents, starting with the 1976 Tripoli accord, none of which have delivered a sustainable peace. There is a strong narrative in Bangsamoro that they have been serially betrayed by Manila, and the problems in the current process have fed that skepticism.

Should they finally lose faith in this round, there is a danger that they will feed the already growing trends of anarchic criminality, most likely in conjunction with already well established clan-based criminal gangs, or fall victim to jihadi radicalisation.

Crisis Group research indicates that much of the success of jihadi groups elsewhere in the world has been due to their ability to exploit disorder of the sort that might be triggered by a prolonged hiatus, let alone a collapse, in the peace process.

The seeds of radicalisation are already there. A number of groups, including the Abu Sayyaf faction led by Isnilon Hapilon based in Sulu, have pledged allegiance to Islamic State, and there is evidence of an emerging threat from university students radicalised online.

Under normal circumstances, the threat would probably be real but limited. The central identity of the insurgents is ethno-nationalist rather than religious; Abu Sayyaf is regarded by most in the south as a criminal enterprise specialising in kidnap and ransom for profit; and there are significant cultural barriers to jihadi-salafi interpretations of Islam – when Indonesian militants have fled to the area, they have hardly been given a heroes welcome.

But the third threat is external. Islamic State's hold over its territories in the Middle East is becoming more tenuous; the head of IS, Abu Omar al-Baghdadi has already mentioned the Philippines as one of the group's key international conflicts; and a Syria-based Malaysian, Mohammed Rafi Uddin, has called on militants who can't make it to Syria to converge on Hapilon and his Abu Sayyaf faction.

Should IS implode, a flood of angry South East Asian militants could head back to the region bringing with them the skills and cash that could provoke a step change in violence.

[...] The Philippines is closer to peace today than at any point in the last four decades. If it can successfully navigate the next few months and deliver a sufficient degree of autonomy to the south, the impact on local, national and regional peace and prosperity will be significant. But if it fails, the situation is unlikely to go back to the status quo ante: the future will be more unpredictable, and potentially much more violent.¹²

Indonesia, Malaysia and the Philippines agreed in June to step up their air and sea patrols in common maritime areas to combat hijackings, kidnappings and robbery.

2.3 South China Sea¹³

In terms of regional relationships, the most important development since President Duterte took office was the long-awaited ruling in July by an Arbitral Tribunal under the UN Convention on the Law of the Sea on the case filed by the Philippines against Chinese claims in the South China Sea. The judgment found overwhelmingly in favour of the Philippines and against China. China responded angrily to the ruling. However, during the presidential campaign, President Duterte indicated that he hoped to take a friendlier stance towards China as part of efforts to attract investment from that quarter.¹⁴ For all its anger, China has reiterated that it remains open to greater economic cooperation with the Philippines.

What this all means in practice is still somewhat unclear. The International Crisis Group has argued that bilateral cooperation on fishing is more likely to bear fruit than efforts to work together on oil exploration or production, tempting as that latter prospect would be.¹⁵

Last week Japan announced that it would be providing the Philippines with two large patrol boats and five surveillance aircraft. These have been offered to strengthen the ability of the Philippines to safeguard its territorial and maritime interests in the South China Sea.¹⁶

¹² "Philippines Peace Process: Duterte Playing for High Stakes", *The Interpreter*, 30 August 2016

¹³ For a more detailed discussion of this issue, see the Library's recent briefing [The South China Sea dispute: July 2016 update](#)

¹⁴ "President Duterte's anti-US populism is a dangerously isolated path", *Guardian*, 7 September 2016

¹⁵ "The Philippines' Misguided Plan to Stop South China Sea Tensions", International Crisis Group, 16 August 2016

¹⁶ "Japan strikes deal to help Manila temper China's naval ambitions", *Financial Times*, 7 September 2016

2.4 Relations with the US

Relations between the two countries have long been close, if not without periodic strains that appear mainly rooted in the historical status of the Philippines as a former colony of the US. The arrival on the scene of President Duterte could presage another rocky period.

The cornerstone of the US- Philippine relationship is the *US-Philippines Mutual Defense Treaty* (MDT) which was signed in August 1951.¹⁷ The treaty contained eight articles which committed both nations to supporting each other in the development of their ability to resist attack and to support each other in the event of an attack on either State by an external party.

Separate to the MDT, although still a fundamental part of the US security commitment to the Philippines, the 1947 Military Bases Agreement between both countries also allowed for the US to operate permanent military facilities at Clark Air Force Base, Subic Bay Naval Complex and several smaller subsidiary installations over the entire period of the Cold War. During this period the Philippines was viewed as a bulwark against other communist states in Southeast Asia and a staging post of military operations throughout the region. US forces withdrew from the country in November 1992 after the US and the Philippines failed to reach agreement on a new version of the Military Bases Agreement.¹⁸

In 1998 both countries concluded a Visiting Forces Agreement, which has paved the way for greater co-operation under the Mutual Defense Treaty, including US ship visits to Philippine ports, and the resumption of large scale annual combined military exercises between the two countries.¹⁹ Those exercises focus not only on military training but also civil-military affairs, humanitarian and disaster relief. The US also provides significant support for the country's counter-terrorism efforts and in its maritime security efforts. The US International Military Education and Training programme in the Philippines is the largest in the Pacific region and the third largest in the world. The US provided more than \$87 million in humanitarian assistance after Typhoon Haiyan in 2013.

Both countries reaffirmed their security commitment under the *US-Philippines Mutual Defense Treaty* in August 2011, the 60th anniversary of the treaty's signature.

In 2014 the US administration and the Philippine government signed a 10-year Enhanced Defense Cooperation Agreement that will once again allow the US to base ships and aircraft in the country. However, that deal was not initially implemented due to a legal challenge, which

¹⁷ The full text of the treaty is available at: www.vfacom.ph/resource/mdt1951.pdf

¹⁸ The US decided to withdraw from Clark Air Force Base after it was heavily damaged by the 1991 eruption of Mount Pinatubo. The new treaty was intended therefore to focus on the US use of Subic Bay Naval Base for a further ten years. In September 1991 the Philippines Senate rejected the draft treaty however and gave the US one year to withdraw its forces.

¹⁹ That agreement was approved by the Philippines Senate in May 1999 and entered into force on 1 June 1999.

argued that the pact infringed the nation's sovereignty. In January 2016, however, the Philippines Supreme Court passed a ruling backing the defence pact which will allow the US access to military facilities in the Philippines that it has not had since it closed its military base there in 1991. An 'Enhanced Defense Cooperation Agreement' was swiftly signed to reflect the ruling. It is expected that US forces and assets will be deployed to the Philippines on a rotational basis, as is currently the case in Australia, in order to avoid regional concerns over a permanent presence.

In the last few years the US has also approved the transfer of several military aircraft and naval vessels in order to bolster the capabilities of the Philippine armed forces, and in particular its maritime capabilities which have suffered from years of neglect. In both 2011 and 2013 the US transferred a Hamilton-class Cutter to the Philippine Navy with a third vessel expected in 2016. Two C-23 Sherpa planes are also expected to be transferred to the Coast Guard by the end of 2016

In tandem the Philippines government recently announced a 9.2% increase to the defence budget for 2016. At \$2.66 billion it will be the Philippines largest ever defence budget. The budget rose steadily under former President Aquino and can be expected to continue doing so under his successor.

Notwithstanding the signing of a new defence agreement apparently securing their future in January 2016, there is again some US nervousness about its access to the Clark Air Base and the Subic Bay Naval Base under President Duterte. In recent days, he has reportedly ordered the 50 US special forces still based in southern Philippines to leave, claiming that it is largely for their own safety. He has also talked about the Philippines charting a more independent foreign policy and increasing security cooperation with China and Russia.²⁰ At the same time, President Duterte has been making reassuring noises about the importance of the Philippines-US security relationship and the US has also been denying that there are tensions.²¹ But analysts are expressing concern that the new administration in Manila is proving dysfunctional and giving off mixed messages.²²

While President Duterte appears prone to bursts of anti-American populism from time to time, it remains unlikely that the Philippines under its new president will tear up decades of military and security cooperation with the US.

2.5 Relations with the UK

Given the nature of the Philippine's security relationship with the United States, the defence and security relationship between the Philippines

²⁰ "Philippines to buy weaponry, armaments from Russia, China", *Thai News Service*, 14 September 2016

²¹ "War games; Philippines signals new direction", *Canberra Times*, 14 September 2016; "Philippines not cutting ties with its allies: Duterte", *Straits Times*, 14 September 2016

²² "PRRD's pronouncement for US troops to leave Mindanao is not policy yet", *Straits Times*, 14 September 2016

and the UK has been focused on 'soft power' issues, specifically humanitarian assistance and training.

In the last few years the UK has provided assistance to the post-Typhoon Haiyan relief mission, delivering aid supplies and providing practical assistance to the recovery effort. In April 2015 British military personnel also spent two weeks working alongside the Philippine government and a number of disaster relief agencies on developing and enhancing their disaster relief contingency plans.

According to media reports in early 2016, the UK and Philippine governments are in talks to agree a new defence agreement by the end of this year. While details are scarce, the pact is expected to cover training and boosting interoperability in areas such as disaster response and recovery.²³

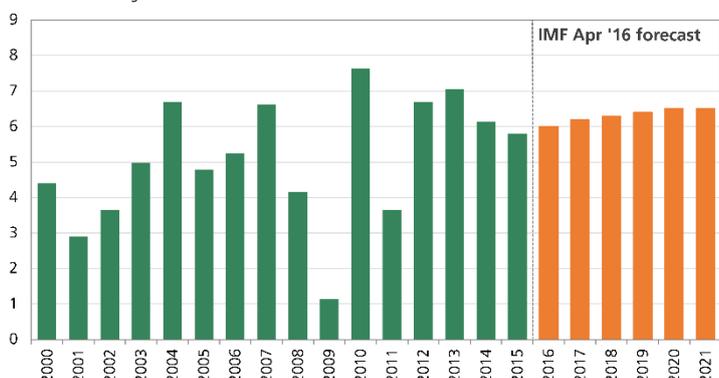
²³ "Philippines, UK to ink new defense pact by end of 2016", *The Diplomat*, 19

3. Economy²⁴

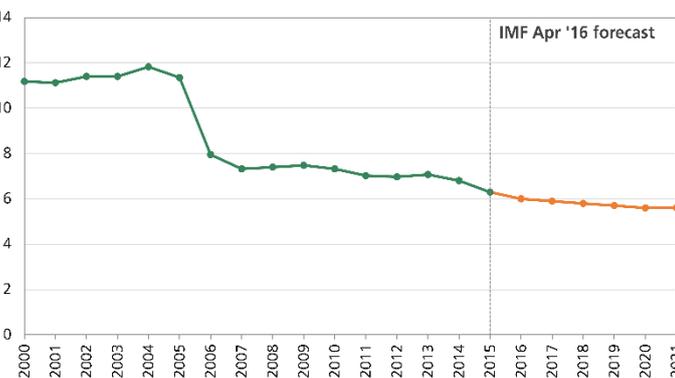
The Philippines economy has seen steady growth over recent years, averaging 5.1% between 2000 and 2015. The economy did see a slowdown around the time of the global financial crisis in 2008/2009, with annual GDP growth falling from 6.6% in 2007 to 1.1% in 2009, however this quickly rebounded to 7.6% by 2010. Both the slowdown and the rebound were driven by exports, which contracted in 2008 and 2009 but then grew at a rate of 19.6% in 2010.

The unemployment rate in the Philippines stood at 6.3% in 2015, just under a percentage point higher than the UK rate of 5.4% for the same period. Unemployment has been on a steady decline in the Philippines over the last decade, which IMF forecasts suggest will continue over the next 5 years. It should be noted that the sudden drop in the recorded unemployment rate in 2005-06 was the result of a change in the

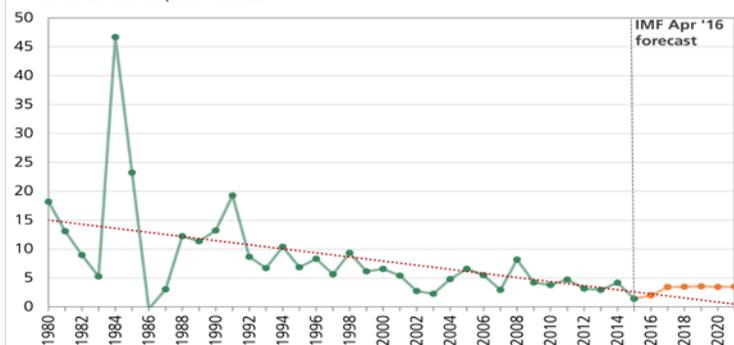
Philippines - GDP growth
Annual % change



Philippines - Unemployment rate (%)
Annual data and forecasts



Philippines - Inflation (%)
Annual consumer price increase



definition of unemployment to fit the harmonised International Labour Organization (ILO) definition.

Historically, the Philippines has seen relatively high

levels of inflation, with an average growth in the consumer price index of 11.8% between 1980 and 1999. However, since the early 1990s there has been a steady decline in the average rate of inflation (as shown by the trendline in the chart), and inflation is expected to stabilise at around 3.5% over the next few years.

Government finances in the Philippines are also in a strong position, with government budget roughly in balance in 2015 and general government gross debt at 37% of GDP having gradually fallen from 68% in 2003.

²⁴ All data in this section unless stated is from IMF, [World Economic Database April 2016](#)

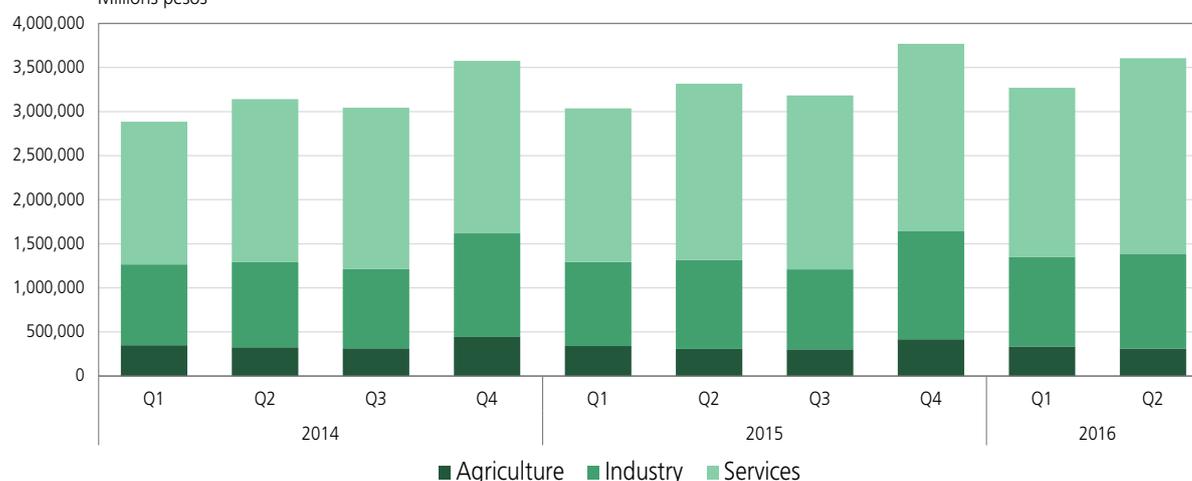
The chart below shows contributions to GDP by sector for each quarter since the start of 2014. In this period, services contributed about 59% to total GDP compared with 31% for industry and 11% for agriculture.

Services accounted for over 80% of GDP growth between Q1 2014 and Q2 2016. In the same period, industry (dominated by manufacturing and construction) contributed 22% to the growth in output and agricultural activities reduced total output by 5%.

As is typical in emerging economies, the agricultural sector in the Philippines has become an increasingly less significant part of the economy as the country develops. In 1980, value added in agriculture accounted for 25% of GDP compared with 10% in 2015.

Philippines - GDP by sector

Millions pesos



The share of labour employed in the sector also declined from 52% in 1980 to 30% in 2014.²⁵

3.1 Economic challenges

Despite strong economic growth and a favourable macroeconomic policy environment, the Philippines does face certain economic challenges. The year 2016 will mark the last year of the current five-year Philippines Development Plan 2011-2016, in which inclusive growth and acceleration of infrastructure development are emphasised. Given the rapid growth of the country's labour force, a priority is to ensure strong job creation. However, there is a concern is that employment generation has been concentrated on services and construction rather than manufacturing. Also, while the unemployment rate has declined, underemployment and youth employment remain a challenge. The Government has launched several initiatives to tackle workers' skill deficiencies, such as programmes under the Technical Education and Skills Development Authority.²⁶

The Philippines also has the lowest investment share among the ASEAN 5 countries as measured by the ratio of gross capital formation to GDP.

²⁵ World Bank, World Development Indicators

²⁶ UN ESCAP, Economic and Social Survey of Asia and the Pacific 2016

Between 1994 and 2015 it averaged 21% of GDP – much lower than Indonesia (27%), Malaysia (27%), Thailand (27%) and Vietnam (28%). The World Economic Forum's (WEF) Global Competitiveness Report 2015-16 identifies a number of weaknesses in the economy which can help explain weak investor sentiment. According to the WEF, the most problematic factors for doing business include:

- **An inefficient government bureaucracy** – Out of 140 countries, the Philippines is ranked 139th in the number of procedures to start a business, 107th in terms of the burden of customs procedures and 101st in the burden of government regulation.
- **Inadequate supply of infrastructure** – It ranks 106th in the quality of overall infrastructure.
- **Corruption** – The country ranks 95th in terms of irregular payments and bribes.²⁷

²⁷ World Economic Forum, The Global Competitiveness Report 2015–2016

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