



CDFAI

CANADIAN DEFENCE & FOREIGN AFFAIRS INSTITUTE

Philippines

by Peter Sutherland
May, 2012



Country Study

Philippines

by Peter Sutherland

Senior Business Advisor, Aird and Berlis LLP
May, 2012



Prepared for the Canadian Defence & Foreign Affairs Institute
1600, 530 – 8th Avenue S.W., Calgary, AB T2P 3S8
www.cdfai.org

©2012 Canadian Defence & Foreign Affairs Institute
ISBN: 978-0-9737870-3-0

► **Executive Summary**

The Philippines has gained new confidence as a result of the recent election of a new president who is untainted by questions of legitimacy and has pledged to fight corruption.

To regain its position as one of the leading economies in Southeast Asia, the Philippines requires: continued sound macroeconomic policy, new investment in infrastructure, and effective programs to address the social and economic disparities that fuel local insurgencies.

However, if growth falters and politicians return to the petty squabbling, recriminations and jockeying for power that has hampered progress in the past, the country will continue to trail its ASEAN neighbours. The Philippines has the economic assets needed to be a successful, modern economy, but, does the country have the political will?





The Republic of the Philippines is an archipelago of 7100 islands lying about 800 kilometres off the southeast coast of Asia. Most of the islands are small (less than one square mile) and many are unnamed. The overall land mass is about the size of Arizona. The country's location, volcanic origins, and tropical climate makes it prone to earthquakes and typhoons, but have also endowed it with abundant mineral resources including significant deposits of gold, copper, nickel, chromite, and zinc.

The Philippines is the twelfth most populous country in the world with a population of approximately 95 million. An additional 9 to 10 million Filipinos live and work abroad. The majority are descendants of migrants from neighbouring islands – Indonesia, Malaysia, Taiwan – who came to the Philippines over many centuries and largely displaced the original inhabitants. They were followed by Arab, Indian and Chinese traders many of whom stayed and intermarried with local families. The largest ethnic minority are Chinese Filipinos (Chinoys), who to this day dominate the commercial sector. After the Chinese, the next largest minority groups are the Spaniards and the Americans.

The Spanish Period

Spain ruled the Philippines for over 300 years from the middle of the 16th century until the end of the Spanish American War. During this period, Spain managed to unify the islands, which had previously been composed of an amalgam of independent kingdoms, confederations and sultanates. In the process, the minority Muslim population was pushed south to the islands of Mindanao and the Sulu archipelago, from where the displaced “Moros” continued to be a thorn in the side of the colonial power for the next 350 years.

The Spanish influence on the Philippines was profound:

“The Spaniards transplanted their social, economic and political institutions halfway across the world to the Philippine archipelago. The colonial masters required native Filipinos to swear allegiance to the Spanish monarch, where before they had only village chieftains called “datus”; to worship a new God, where before they worshipped a whole pantheon of supernatural deities and divinities; to speak a new language, where before they had (and still have) a Babel of tongues; and to alter their work habits, where before they worked within the framework of a subsistence economy. The Spanish landholding system based on private ownership of land replaced the Filipino system of communal ownership. Thus, when the Spanish rule ended, the Filipinos found many aspects of their way of life bearing the indelible imprint of Hispanization.”¹

The Catholic Church is possibly the most significant and enduring influence of Spanish rule in the Philippines today. The Church and state were inseparably linked in Spanish policy, and one of Spain's objectives in colonizing the Philippines was to convert the Filipinos to Catholicism. They were remarkably successful. Today, 85% of Filipinos are Catholic and another 5% belong to other Christian denominations. Islam, the other major organized religion, is practiced by about 5% of the population and is mainly concentrated on the island of Mindanao.

Even as other aspects of Spanish rule have faded over the years, the Church remains one of the most revered Philippine institutions. Although Church and state were officially separated in the

¹ Leslie E. Bauzon, “Influence of the Spanish Culture,” *Encyclopedia of Southeast Asia: Philippines*, Kyoto: Dohosha, 1991. pp195-96



constitution of 1987, it continues to be a major conservative influence in peoples' lives and in politics. The Church derives its power from the devoutness of Filipino Catholics and its pervasive reach into all levels of society. It is particularly influential in rural areas where the local priest continues to be an important figure.

Spain established the first centralized system of governance that combined a national government with local government units (LGUs) to administer provinces, cities and towns. At the local level, the Spanish built on traditional village organization by co-opting local leaders to create an upper class with entrenched landed interests, wealth and high status. This reinforced a hierarchical system of social control that continues to exist today, where personal loyalty and patronage underpin relationships at all levels of Philippine society. This system of governance also strengthened a parochial tendency to think locally rather than nationally.

Despite ongoing attempts, the Spanish were not successful in colonizing the Moro population in Mindanao and the southern islands. As a result, these areas retained their own culture, which continued to diverge from mainstream Catholicism and an increasingly westernized majority. This gap resulted in often-violent struggles for political autonomy and self-government, which continued under American rule and are still unresolved today. In fact, the global rise of militant Islam has exacerbated the problem.

American Influence

Spain ceded the Philippine islands to the United States (US) in the Treaty of Paris that ended the Spanish American war. Apart from the Japanese occupation in 1942-45, the Americans retained sovereignty over the islands from 1898 until the Philippines gained independence in 1946. Since colonialism was anathema to the American ethos, from the start, the Americans set about building the country's capacity to become independent. Their most important legacies were the American system and structure of government, including the separation of powers, universal primary education in English, and the development of new infrastructure. Their success was such that the Philippines became one of the leading economies in Asia. In 1950, Manila was selected over Tokyo as the headquarters for the new Asian Development Bank, indicating that the two cities were considered to be on par.

Another lasting impact is the westernization of Filipino culture and an infatuation with everything American. Among other things, this is manifest in the ubiquitous fast food outlets, the craze for American popular music and fashion, a passion for basketball, the de facto national sport in a country where the average height is 5' 4", and a fondness for guns. The Americans were less successful in implementing land reform, with the result that the highly unequal class structure inherited from the Spanish continues today. The poor remain poor and the wealthy elite maintain their monopoly over political power.

Almost four hundred years of uninterrupted western domination essentially isolated the Philippines from the rest of Asia. The Philippines did not move to reaffirm its Asian roots until the ouster of President Marcos in 1986, and the rise of a more nationalist aligned administration under Corazon Aquino. Today, most western expats soon realize that despite outward appearances, so-called Asian values such as face, family, filial obligation, fidelity, and the avoidance of confrontation, are strongly ingrained in Filipinos.



POLITICAL SCENE

Background

The first issue to understand about Philippine politics is that it is personal rather than policy based, and that alliances built through economic rewards are key to political success. The rise to power of political dynasties is common because wealth is concentrated in the hands of a limited number of powerful families. It is estimated that over 50% of elected Congressmen and Governors have had a previous relative in office. In addition to this political oligarchy, the other main power brokers are the military, the Catholic Church, and civil society, which is defined by a large number of activist non-governmental organizations bolstered by a crusading but freewheeling media. Thus, successful politicians must learn to accommodate these various interest groups.

Ferdinand Marcos was the most striking example of this trend. He was first elected as a popular president in 1965, but was ousted by a populist uprising in 1986 that was led by the Church and militant non-governmental organizations, and also supported by the military. His ouster followed a period of martial law, corruption and rampant abuse of power that culminated in the assassination of opposition leader Benigno Aquino. Marcos was finally forced into exile by a “People Power Revolution” that ended in a non-violent demonstration by two million civilians in downtown Manila. Several succeeding presidents have been plagued by their inability to sustain a coalition of these three important power blocks, which has resulted in periodic coup attempts backed by various political and economic elites. In 2001, a second People Power Revolution deposed President Joseph Estrada during his impeachment trial for corruption.

Current Situation

The current President, Benigno (Nonoy) Aquino, is a fourth-generation politician. He is the son of Corazon Aquino, who succeeded Marcos as President after her husband was assassinated. His mother’s death just before the election in August 2009 produced a strong sympathy vote that helped him to win the election. He was elected on a platform to fight corruption and alleviate poverty. The election was relatively free of the “guns, goons and gold” that have marred previous electoral contests and his success is widely considered to be legitimate. Questions of legitimacy have often been the pretext for malcontents to undermine the presidency. A case in point is his predecessor, Gloria Macapagal Arroyo. Her election was widely disputed and she was suspected of putting her personal interests ahead of the country, with the result that her presidency was marred by political conspiracies and several attempted coups.

Despite questions about Aquino’s presidential timbre – based on twelve lacklustre years in the House of Representatives and the Senate – his first year in office has gone reasonably well. He remains a popular and trusted figure who is perceived to have good intentions and the best interests of the people at heart. Aquino appointed a mixed cabinet of experienced government officials and newcomers that includes capable individuals from the business and legal communities, as well as from civil society. Notable among these are strong appointments to the key departments of finance, social welfare, and budget management, all of whom have performed well under previous administrations. However the cabinet is more heterogeneous than homogeneous in political philosophy, which will prove to be a test of the president’s ability to lead by consensus in the future.

Although the president’s Liberal Party has a minority in the House of Representatives, it has cobbled together a makeshift coalition using the time-honored advantage of being able to



dispense presidential patronage. This technique has also been used to keep a sufficient number of provincial governors, mayors and barangay captains on the president's side. The twenty-four Senators are all elected nationally and are therefore less susceptible to such inducements. So far however, the administration has managed to forge a workable relationship.

Aquino's campaign emphasized the elimination of corruption as a means to eradicate poverty. To date, he has spent a great deal, and some say an excessive amount of time, in his endeavour to expose alleged malfeasance by the former administration. Very early on he introduced initiatives to curb corruption in the agencies responsible for tax collection and customs. This included the introduction of a slew of anti-poverty measures such as the expansion of conditional cash transfer programs to the poor and improved access to artificial birth control measures. Not surprisingly, this last measure has provoked vociferous opposition from the Catholic Church.

Recent opinion polls are mixed. The President has received majority support for his efforts to fight crime, enforce the law equally, attack corruption, create jobs, and increase workers' pay. However, he has received lower ratings when it comes to controlling inflation and reducing poverty. Businesses have given him a passing grade overall but contend that more needs to be done, especially in the areas of improving infrastructure, which is a major impediment to economic growth. Other chronic challenges that the government must confront are the quality of public education, environmental degradation, the continuing secessionist conflict in Muslim Mindanao, and a longstanding communist insurgency fuelled by social and economic disparities. Ultimately, Aquino's political success and the longevity of his administration will depend on how well he tackles these issues.

Regional Politics

Regionally, the Philippines, like other countries in Southeast Asia, is struggling to balance its economic and security interests. From a business perspective, the country has inclined itself towards China, which is gradually overtaking Japan and the United States as the country's largest trading partner. The US remains the biggest source of foreign direct investment in the Philippines. On the question of security however, there is growing apprehension about China's hegemonic intentions in Southeast Asia. Lately, this has been heightened by increasingly acrimonious disputes with the Philippines and other countries over various resource rich islands in the South China Sea. To hedge this risk, the Philippines has established Mutual Defense and Status of Forces agreements with the US under which it receives military equipment, training, and American participation in annual military exercises targeted at different Islamic terrorist groups active in the southern islands.

Another pillar of Philippine foreign policy is the Association of Southeast Asian Nations (ASEAN). The Philippines is a founding member of ASEAN and values the organization both as a bulwark against malign foreign influences and as an economic agreement to boost intra-regional trade and investment. It has also become a platform for engaging other countries such as Japan, Korea, Russia, India, China, and the US, who have interests in the region. The Philippines also aims to maintain good relations with Middle Eastern countries, especially Saudi Arabia and the United Arab Emirates. This is primarily because of their influence with and financial support to the Filipino Muslim community, the country's dependence on oil imports from the Gulf, and the estimated two million Filipinos working in the Middle East.

Relations with Canada



The Philippines maintains good relations with Canada, even though the relationship is not a foreign policy priority for either country. This relationship is based on the three pillars of development assistance, immigration, and commerce. Canada initiated a large aid program after the first People Power Revolution ousted Ferdinand Marcos. This was with the intention of supporting the reform process being undertaken by the new government of Corazon Aquino. Historically, Canada's aid program in the Philippines has focused on strengthening local government, increasing the efficiency and transparency of government at the national level, and providing support to small and medium-sized enterprises. Even though the development program has decreased in size over the years, Canada still ranks as the Philippines's fifth largest source of bilateral assistance. The current focus is on "supporting sustainable growth by improving the climate for investment and protecting the economic interests of the poor".²

After being in the top three list of countries for many years, the Philippines has recently overtaken China and India as Canada's largest source country for immigrants and foreign workers. Currently, there are over six hundred thousand Filipinos living in Canada. Most are employed in healthcare professions (live-in caregivers, nurses, medical technicians) and the hospitality industry (hotels, restaurants), but there are also large numbers working in construction and skilled trades. Filipinos adapt well to Canadian living and form strong, active communities that are often centred around a church. While some Filipinos have entered politics, this has been in smaller numbers than the larger Indian and Chinese communities. However the substantial and growing Filipino-Canadian diaspora will continue to be an important cornerstone of the relationship between the two countries.

While trade and investment with Canada is growing, it is still not at substantial levels. In 2010, the bilateral merchandise trade was approximately \$1.5 billion, with perhaps another \$600-\$700 million in services. Philippine-Canada trade does not typically exceed 0.5% of total trade for either country. Major exports from Canada are commodities such as copper ore, cereals and meat. The leading imports to Canada include electrical and electronic equipment that are mostly computer related, and machinery.³ Canadian investments in the Philippines are small and represented less than 0.1% of total outward investment in 2010. The majority of these investments were in business process outsourcing, call centres, and financial services. Some prominent examples of major investors in the Philippines are Sun Life Financial, Manulife, Telus, Bombardier, and ATCO. There are perhaps a dozen junior mining companies listed on the Toronto Ventures Exchange and TSX that are involved in the Philippines at some stage of exploration, development or production, but they are not all Canadian companies. The Canadian Embassy in Manila identifies defence and aerospace, agri-food, electric power and renewable energy, information and communication technology mining, metals and minerals, and education as promising sectors for exports.

A lack of awareness is a major reason for the small volume of Canadian trade and investment in the Philippines. Southeast Asia has not attracted much interest from Canadian businesses, as a result of which the ten member countries of ASEAN collectively account for barely 1% of total Canadian exports and foreign direct investment. Within ASEAN, the Philippines has had difficulty in competing with the likes of Singapore, Thailand, Malaysia, Indonesia and Vietnam,

² Canadian International Development Agency website <http://www.acdi-cida.gc.ca/philippines-e>

³ More information is available on the websites of the Asia Pacific Foundation of Canada

<http://www.asiapacific.ca/statistics> and the Department of Foreign Affairs and International Trade

<http://www.international.gc.ca/economist-economiste/index.aspx?404>



whose economic growth has outpaced the Philippines since the seventies. This disinterest will likely change as global businesses increasingly looks to Asia as a future source of economic growth and recognize the importance of global supply chains, many of which are rooted in southeast Asia.

ECONOMIC SITUATION

Background

During fifty years of American rule, the United States maintained a colonial relationship with the Philippines and used it as a source of raw materials – notably agricultural and forest products – and as a market for manufactured goods. This changed post-independence as the early presidents pursued a policy of import substitution, and imposed high tariffs on imports, as well as other import controls to build an industrial base. By the 1960s, the Philippines was the most successful manufacturing country in Southeast Asia and the second most prosperous country in the region after Japan. It became a preferred destination for foreign investors because of its well-educated English-speaking workforce and a strong managerial class.

The Marcos years brought these halcyon days to an end. The economy stagnated and foreign debt accumulated under his corrupt brand of crony capitalism. The ensuing recession and general malaise led to his ouster in 1986. It was during this period that neighbouring economies in Southeast Asia spurred ahead by attracting large amounts of foreign investment and raising their living standards. Essentially, the Philippines has been playing catch-up ever since.

Current Situation

The transition from an agrarian economy to one based on manufacturing and to an increasing extent on services, is well underway. Today, agriculture contributes to less than 14% of GDP, although it still employs one third of the workforce. Industry, mostly small-scale manufacturing, processing, and electronic assembly operations, accounts for 31% of production and 15% of the labour force, while services generate 55% of output and 52% of the jobs. Business process outsourcing (BPO) is the fastest growing segment of the economy, such that today, the Philippines rivals India for a top spot at 15% of the global market.

The success of the BPO industry highlights the strengths of the Philippine economy – a young (median age 23), largely English-speaking and educated workforce, a business friendly government, and an open economy with a big domestic market that is well situated in one of the world's fastest growing regions (Southeast Asia). Goldman Sachs counts the Philippines as one of the “Next Eleven” countries. It maintains that along with the BRICS (Brazil, Russia, India, China), the Philippines has a high potential of becoming one of the world's largest economies during the course of this century.

The Philippines is headed in the right direction. Over the past ten years it has restored macroeconomic stability and a competitive growth rate that averaged 5% a year over the past decade. Although growth dropped sharply to 1.1% in 2008, it rebounded strongly to 7.6% in 2010, highlighting the economy's resilience in the face of external financial shocks. The country maintains a positive current account balance and has declining fiscal deficit (3.6%) and debt to GDP ratios (56%), both of which are manageable. The economy is buffered against adverse external events by its low dependency on exports (35%), the preponderant role of private consumption (70%), and the large inflow of remittances from overseas Filipinos, which reached



\$18.7 billion last year or 10% of GDP. Importantly, these inflows are counter-cyclical in nature, rising when the need at home is greatest.

One of the biggest problems is that not everyone has benefited equally from this economic growth. There is a big divergence in income levels with close to 23% of the population living on less than \$1.25 a day. There are similar disparities between regions, with the least advantaged region being the conflict-affected areas in Muslim Mindanao. Another related problem is the fertility rate (3.2 births per woman), which keeps per capita income low, and is highest among the rural poor. Previous efforts at birth control have been noisily resisted by the Catholic Church. Revenue generation is another issue. In Canada taxes are 32% of GDP, whereas in the Philippines the figure is 14.4%, which is one of the lowest in the region. While this is an increase from 13% in 2004, more money is needed to pay for increased spending on health, education, and other social programs.

Job creation is another priority. The Philippines is one of the few countries where the government encourages and actively facilitates the export of its workforce. As a result, approximately 10 million Filipinos live and work abroad. Their remittances make a sizeable contribution to the economy, which is one of the prime reasons why the government supports the exodus. Another reason is political. Since the unemployment rate is already over 7%, encouraging a large number of Filipinos to work abroad avoids the build-up of a large class of unemployed, disgruntled young people who could become fodder for political opportunists. The downsides of this policy are the disruption caused to families left behind and a significant brain drain, since many workers never return, especially from Europe and North America.

Challenges

The government understands that a key requirement to strengthening the economy is to attract more foreign investment by improving the investment climate. This means lowering the cost of doing business, which is currently elevated by pervasive corruption, red tape and inadequate infrastructure. The Philippines ranked 134th out of 178 countries in Transparency International's 2010 Corruption Perceptions Index.⁴ Within ASEAN, it is fourth from the bottom, slightly ahead of Laos, Cambodia and Myanmar when it comes to corruption ratings. This ranking is not entirely unexpected given that two presidents, Marcos and Joseph Estrada, were forced from office by corruption scandals and a third, Gloria Macapagal Arroyo, was plagued by allegations of graft and abuse of power. The good news is that the current president was elected largely because of his clean image and his pledge to eradicate corruption. While he has been true to his word thus far, it will take more than one presidency to make a real difference.

According to the Political and Economic Risk Consultancy (PERC), the Philippines, along with India and Indonesia, has the most inefficient bureaucracy in Asia.⁵ This is corroborated by its standing in the World Bank's rating of countries, which is calculated based on the ease of doing business. The index grades countries against criteria such as the ease of opening and closing a business, employing workers, paying taxes, enforcing contracts, and trading across borders. In 2011, the Philippines placed 136th out of 183 countries. Its best score was based on the ease of cross-border trading, while its worse score was based on opening a business and resolving

⁴ Corruption Perceptions Index, 2010. http://www.transparency.org/policy_research/surveys_indices/cpi/2010

⁵ Political and Economic Risk Consultancy <http://www.asiarisk.com/percrpts.html>



insolvency.⁶ At the top of the new administration's agenda is the need to improve the business climate and lighten the regulatory burden.

Inadequate infrastructure is one of the main bottlenecks deterring foreign investment. It has stunted agricultural productivity and slowed industrial expansion. According to the World Economic Forum's 2011-2012 Global Competitiveness Report, the Philippines stands 75th overall among the 142 countries ranked, but drops to the 105th spot in terms of the quality of its infrastructure. It scores lowest for the quality of its ports and air transport infrastructure, and highest in the electricity and telecommunications sector.⁷ The latter sectors have enabled the impressive growth of the country's outsourcing industry and thus demonstrate what a difference good infrastructure can make to the country's economic development. Overall, Philippine infrastructure ranks last among the six big ASEAN economies with which it competes for foreign investment.

The Aquino government is committed to substantially increasing infrastructure spending. It has launched an ambitious new public-private partnership program, which is intended to augment government budgets constrained by weak revenues and a tight deficit reduction target. Unfortunately, this program has been bogged down by charges of corruption. Thus, the President has cancelled several large projects announced by his predecessor that were tainted by such charges, and has moved cautiously on new ones to avoid any hint of impropriety. As a result, only two of the ten projects scheduled for this year appear to be moving forward.

Trends in Mining

The Philippines has some of the best mineralogy in the world. It sits on one of the world's largest deposits of copper and has big reserves of gold, nickel, zinc and chromites. It is also on the doorstep of China, one of the world's largest consumers of metals. In the 1980s, more than fifty mines operated in the Philippines and accounted for a fifth of the country's exports. By the turn of the century the number of operating mines dwindled to a dozen or so, which is where it remains today. There are several reasons for this change that stand apart from the cyclical decline in commodity prices and the recent credit crunch.

On paper, the Philippines has one of the region's most liberal mining codes. The Mining Act allows for 100% foreign equity through financial and technical assistance agreements (FTAA) with local miners. In addition, the government offers a range of tax and non-tax incentives to potential investors because it regards mining as a source of foreign exchange and jobs, especially in rural areas.⁸ Others take a different view. There is strident opposition to mining from environmentalists, anti-mining activists, indigenous tribes and most importantly, the Catholic Church. The government has responded by requiring that investors obtain a proliferation of regulatory approvals at the national and local levels. While it is clear that the national government actively encourages foreign investment in mining, the position of local government units varies. It does not help that many mining sites are located in areas affected by Muslim and Communist insurgencies.

⁶ Doing Business, 2011 World Bank Report <http://www.doingbusiness.org/reports/global-reports/doing-business-2011>

⁷ The Global Competitiveness Report 2010 – 2012 <http://www.weforum.org/reports/global-competitiveness-report-2011-2012>

⁸ For more detailed information see the Department of Environment and Natural Resources Manual <http://www.asean.org/20725.pdf>



While environmentalists are generally concerned about the adverse effect of mining, they are particularly vocal when it comes to open pit mining. Their protests have attracted widespread support because of several well-publicized accidents, notably a major tailings spill in 1996 that polluted nearby rivers, killed fish, and allegedly caused health problems for local villagers. The foreign partner in this operation was Canada’s Placer Dome. Anti-mining activists also include foreign non-governmental organizations – such as Mining Watch Canada – for whom mining is objectionable by definition. As in Canada, many mines are located on the ancestral lands of indigenous tribes and mining opponents argue that the rights of indigenous people are ignored despite the legal requirement for “free prior and informed consent”. In addition, the Catholic Church has championed these complaints, which has given these groups a profile at the national level. At one point the Catholic Bishops Conference denounced mining as a “destroyer of life” and called for repealing the Mining Act and the closure of all big mining operations.

As a result, certain major mining companies have decided not to invest in the Philippines mining sector as they have been deterred by the regulatory burden, inter-jurisdictional disputes, new tax levies, security concerns, and active opposition from myriad interest groups. On the other hand, other companies continue to take an interest in this sector. The government expects new investments in the mineral industry this year to reach \$2.8 billion, with more to come. Major companies like Xstrata, Sumitomo and CGA are in the midst of multi-billion dollar investments and there are numerous smaller projects that are already operating or currently in the works. The largest Canadian investor is TVI Pacific, which has operated in the Philippines for many years and is seeking to expand its operations. While experienced investors state that mining in the Philippines is not for the faint of heart, it can still be a profitable venture for companies with deep pockets and staying power.

SECURITY SITUATION

Security in the Philippines is a highly publicized issue. All western countries maintain updated travel advisories that assess the various risks. Terrorism and natural disasters receive the most attention. There is also a high incidence of street crime, much of it gun-related, which is to be expected in a country with the size and level of development of the Philippines and with big gaps in income and limited social mobility. While kidnapping for ransom is prevalent, as in the case of street crime, foreigners are rarely specifically targeted.

While terrorism is a bigger concern, it is mostly confined to the southern islands. The major threats come from Muslim insurgents based in southern Mindanao and the Sulu archipelago. The most violent terrorist group is the Abu Sayef Group (ASG), which is said to have ties with Jemaah Islamiyah, a terrorist group active throughout Southeast Asia with alleged links to Al Qaeda. Abu Sayef has been the target of combined American-Filipino military exercises in recent years. As a result, the group is more or less contained in the Sulu islands, although it has sometimes claimed responsibility for bombings elsewhere in the Philippines.

Whereas the ASG professes to be ideologically motivated, the Moro Islamic Liberation Front (MILF) is dedicated to carving out an independent Muslim homeland in Mindanao. While MILF has been involved in ongoing negotiations with the Philippines government for many years, these efforts are punctuated by outbreaks of violence when talks breakdown.



The New People's Army is the armed wing of the Communist Party. It conducts guerrilla operations throughout the country, which are primarily aimed at army and police personnel as well as at government infrastructure such as telecommunications towers. Along with the Muslim insurgents, it often extracts protection money from private companies operating in areas where it is active. Targeted mining companies sometimes comply with the insurgents or arrange for private security.

According to a recent US State Department report, terrorist activities by Islamic extremists and communist rebels declined last year. However, incidents continue to occur, such as the January 2011 bus bombing in Manila that killed five people. Realistically, these threats will remain until Muslim aspirations for more autonomy are satisfied and the wide disparities in social and economic conditions are alleviated. While natural disasters are a risk, the last significant earthquake occurred in 1990, and of the approximately twenty typhoons that strike the Philippines each year, few cause major damage or injury.

CONCLUSION

After decades of slow growth and dysfunctional politics, the Philippines is starting to pick up speed. The new president is not saddled with questions of legitimacy and has assembled a competent cabinet focused on removing obstacles to economic growth, job creation and social cohesion. Reaching an accommodation with Muslim separatists and mitigating the terrorist threat is an important part of his challenge.

The country's macroeconomic position has strengthened and even though growth will slow in the current economic climate, the economy should be able to withstand the global slowdown, as it did the 2008-2009 recession. The country's growth will depend heavily on a steady flow of foreign remittances that are needed to support domestic consumption, new investment in infrastructure to improve competitiveness, and sustained economic growth at a level that is high enough to compensate for the high birth rate and pay for promised social programs. If this happens the business and investment climate will continue to brighten. If not, disillusion and dissatisfaction may surface and old political fissures may reappear. In this scenario, the country risks reverting to a period of economic underachievement and political instability, which would make it less hospitable for future new investments.

► **About the Author**

Peter Sutherland is Senior Policy Advisor, Asia to Aird & Berlis LLP in Toronto. He advises companies interested in doing business in India, the Middle East and other parts of Asia. Previously, he was a career diplomat whose assignments included service as Canada's Ambassador to Saudi Arabia, the Philippines and as High Commissioner to India. He currently serves as Vice-Chairman of the Canada-India Business Council and on the Board of Directors of The Canada-Arab Business Council.



► **Canadian Defence & Foreign Affairs Institute**

CDFAI is the only think tank focused on Canada's international engagement in all its forms - diplomacy, the military, aid and trade security. Established in 2001, CDFAI's vision is for Canada to have a respected, influential voice in the international arena based on a comprehensive foreign policy, which expresses our national interests, political and social values, military capabilities, economic strength and willingness to be engaged with action that is timely and credible.

CDFAI was created to address the ongoing discrepancy between what Canadians need to know about Canadian international activities and what they do know. Historically, Canadians tend to think of foreign policy – if they think of it at all – as a matter of trade and markets. They are unaware of the importance of Canada engaging diplomatically, militarily, and with international aid in the ongoing struggle to maintain a world that is friendly to the free flow of goods, services, people and ideas across borders and the spread of human rights. They are largely unaware of the connection between a prosperous and free Canada and a world of globalization and liberal internationalism.

In all its activities CDFAI is a charitable, nonpartisan organization, supported financially by the contributions of foundations, corporations and individuals. Conclusions or opinions expressed in CDFAI publications and programs are those of the authors and speakers and do not necessarily reflect the views of the Institute staff, fellows, directors, advisors, or any individuals or organizations that provide financial support to CDFAI.

