

End of the Honeymoon?

by Steven Rood

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The last week in August showcased the challenges facing the Philippines' new administration. President Benigno S. "Noynoy" Aquino III, right on the schedule he promised in his July 26 State of the Nation Address (SONA), submitted his proposed 2011 budget to the Philippine Congress. This operationalization of the vision laid out in the SONA and his June 30 Inaugural was, however, totally overshadowed by the horrific hostage incident where eight tourists from Hong Kong were slain after a rogue policeman commandeered their bus. Immediately, the damage done to the Philippines' international image jumped to the top of the list of challenges faced by the new administration.

The administration's immediate concern was managing the backlash from Hong Kong where the tourists had come from and China more generally. A national day of mourning was declared in the Philippines, and there was an attempt to dispatch Vice President Binay and Foreign Secretary Romulo to Beijing and Hong Kong. However, the Chinese government refused to countenance the visit until the agenda could include information on a full and open investigation. When Chinese winners of the Magsaysay Award cancelled participation in events held in Manila surrounding the award, many wondered whether illness was the real reason or part of a chill in relations.

Foreign affairs were not supposed to be the focus of Aquino's administration. His promise of change did not extend into international relations, and Foreign Affairs Secretary Romulo was the sole holdover from the previous Cabinet of President Gloria Macapagal-Arroyo. Aquino did not even possess a valid passport when he was elected. His inclination was not to travel abroad until the domestic situation had been stabilized, but the modern world does not allow chief executives that luxury.

Diplomacy will not be easy for the new administration, particularly when it comes to the South China Sea. Considerable attention was paid to comments in July by Secretary of State Hillary Clinton and Chinese officials about their national interests in the area. Press reports quoting Foreign Secretary Romulo insisting that the Philippines did not need US support in a matter that was between ASEAN and China raised some eyebrows. Diplomats in Manila were subsequently given private assurances that the Philippines welcomes expressions of views by all stakeholders, including those expressed by Clinton.

Budget Balancing Act

The daunting fiscal situation includes a budget deficit and weak tax collection system while the government needs to invest more in education, health, and infrastructure to generate growth, jobs, and poverty reduction. The basics of the situation are simple – a budget deficit of almost 4 percent of GDP in 2010, years of fiscal compression that have left Manila needing to increase health and education spending each by 1.5 percent of GDP just to reach the averages for similar countries, and infrastructure investment by 2 percent of GDP to improve connectivity and productivity. Aquino has called for doubling security expenditures from 1 to 2 percent of GDP to address the glaring problems in the armed forces and the police that were brought to light in the hostage crisis.

The administration's budget message promises increases of 1 to 2 percent of GDP from better tax administration; yet President Aquino has pledged no new taxes. How is this circle to be squared? In his SONA and his subsequent budget Aquino explained how: reduce corruption, limit subsidies to government owned or controlled corporations, and public-private partnerships in infrastructure to mobilize money that does not come from the government.

Estimates of corruption vary widely. The administration's budget message says 20 percent and lays out a number of concrete steps, the main ones of which are making more information available to the public on the principle that sunshine is the best disinfectant, and more involvement by civil society and business groups in partnership with government agencies and elected officials to ensure money is spent wisely. Reducing corruption by half would add 1 percent of GDP to the government's effective budget.

A second measure would reduce subsidies to government corporations and have beneficiaries paying closer to the full cost of facilities. Thus, fares on light rail lines in Manila would go up, so that taxpayers throughout the country will not pay two-thirds of the cost of urbanites' train rides. And the government has argued before the Supreme Court and its own constituents that the contract for a toll expressway south of Manila, involving a doubling of tolls, must be followed if foreigner investors are to be reassured of a stable investment climate.

Public-private partnership has been emphasized as a way to fill the infrastructure and other gaps without further straining the budget. Yet when President Aquino mentioned in his SONA a proposal to utilize Philippine Navy Manila Bay property along scenic Roxas Boulevard in return for funds to procure modern ships, skeptics remember that the Armed Forces were able to utilize less than one-third of the proceeds from the previous privatization of Fort Bonifacio. When Finance Secretary Cesar Purisima works to speed up PPP deals to kick-start infrastructure, analysts point to the "political

economy” of PPP in the Philippines where there is a proliferation of unsolicited proposals and noncompetitive awarding of contracts. In short, PPP has a bad name. So the administration is trying to ensure unsolicited proposals receive more rigorous scrutiny, increase opportunities for competition, improve transparency, and work with stakeholders – from official development agencies to banks to local business groups – to demonstrate that things have changed.

The administration’s new budget shows increases for social services – education, health, and in particular Conditional Cash Transfers (where poor families get modest stipends in return for keeping children in school and getting regular health check-ups). However, it will take time before the effects of reduced corruption, lower subsidies for government corporations, and substitution of PPP for government budgetary expenditures will show any benefits. Meanwhile, economists and other analysts have urged the administration to consider better indexing of “sin taxes” (on alcohol and tobacco) and higher taxes on oil products. But President Aquino will not try those measures without first proving that he has tried all means to avoid raising taxes.

Twin Insurgencies

The final set of challenges comes from the insurgencies facing the country. Though it attracts less international attention than violence connected to minority Muslim populations, the communist insurgency is regarded by Philippine analysts as the greater threat to national security. President Arroyo ordered the Armed Forces to wipe out the New People’s Army (NPA) by the end of her term. They failed.

The Aquino administration is serious about negotiations with the Maoist National Democratic Front (the political wing of the insurgency), but it thus far has discussed conditions that are unacceptable to the Maoists. In particular, President Aquino in his SONA linked talks with a ceasefire, to which the NPA has objected. His appointment of Loretta Rosales (former member of Congress for the non-communist AKBAYAN party) as Chair of the Commission on Human Rights riled the NDF. Secretary of Defense Voltaire Gazmin mused about talking separately with local NPA commanders if the central insurgent leadership balked at talks, although localized peace has always been a bête noire of the Maoists. In short, no progress is likely in the near term.

Peace talks with the Moro Islamic Liberation Front (MILF) adjourned at the end of the Arroyo administration after nine years of sporadic discussion facilitated by Malaysia. An elaborate architecture has been built to enforce a cessation of hostilities and promote progress toward a final settlement; an International Monitoring Team, including a nongovernment Civilian Protection Component, was on the ground in Mindanao and an International Contact Group including the United Kingdom, Turkey, Japan, as well as International NGOs (The Asia Foundation, Conciliation Resources, Center for Humanitarian Dialogue, and Muhammadiyah) was formed to interact with the Malaysian facilitator.

The new administration has reconstituted a panel for the talks, headed by the Dean of the University of the Philippines College of Law, and including three persons from Mindanao.

The MILF has promised to reconstitute their panel and both sides mention restarting the talks after the end of Ramadan in mid-September. Considerable intellectual work has been accomplished.

Divisions among Muslim groupings such as the Moro National Liberation Front (MNLF), the MILF, and elected Muslim politicians throughout Mindanao will impede any unified approach to giving Muslims greater authority over their own affairs. Rampant criminality and the presence of terrorist elements reinforce the need for security sector reform, but that is a long-term process. More social services and infrastructure were part of Aquino’s campaign platform, but improved governance is needed for sustainable recovery and development. Other stakeholders in the region, both Christian migrants and indigenous peoples, need to have their rights taken into account in any agreement. All this is doable, but it will not be easy. The Aquino administration is trying to fulfill its pledges of transparency in order not to surprise communities with an agreement as happened with the Memorandum of Agreement on Ancestral Domain in August 2008; a debacle that led to considerable violence and population displacement. It hopes to build political support for the negotiated settlement within Aquino’s six-year term.

Conclusion

President Aquino has a penchant for delivering speeches – such as his Inaugural and his SONA – in Filipino rather than English. Foreign observers wonder whether this is a signal of “nationalism” or an anti-foreign sentiment. That is a misreading of the reason for such speechifying. Aquino came to power as the antithesis of Arroyo. However, the rest of the Philippine political system did not change. He got the support of a majority of Congress despite the fact that few of his party-mates won on May 10. But this is a normal occurrence in Philippine politics. Congressmen follow the money.

What is different for the Aquino administration is the extraordinarily high levels of support, and consequent expectations, of ordinary Filipinos. Public opinion polling during the elections showed unprecedented levels of trust in Aquino. This is his political capital. As an American analyst once put it, presidential power is the power to persuade others that their own interests would lead them to do what the president wants them to do. In this effort, popularity is a key resource. Speaking in Filipino allows Aquino to maintain psychological ties to the average person, and thus increase his leverage. Public opinion polls over the next few weeks will show if that popularity has been dented by the hostage incident. The prediction here is that it hasn’t – the honeymoon with the Filipino people is not yet over.